S. Hrg. 98-737 Vol. 2

FIRST CONCURRENT RESOLUTION ON THE BUDGET—FISCAL YEAR 1985

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

SECOND SESSION

EFFICIENCY IN GOVERNMENT

FEBRUARY 28, 1984—GRACE COMMISSION REPORT

Volume II

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE
33-789 O WASHINGTON : 1984

5251-4

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GRACE COMMISSION REPORT

TUESDAY, FEBRUARY 28, 1984

U.S. SENATE,
COMMITTEE ON THE BUDGET,
Washington, D.C.

The committee met, pursuant to notice, at 2:27 p.m., in room SD-608, Dirksen Senate Office Building, Hon. Pete V. Domenici (chairman of the committee) presiding.

Present: Senators Domenici, Kasten, Chiles, Biden, Sasser, and Exon.

Staff present: Stephen Bell, staff director; and William Hoagland, deputy staff director and senior analyst for agriculture and physical resources group.

For the minority: Richard N. Brandon, staff director; and Lisa Faulkner, analyst for general government.

OPENING STATEMENT OF CHAIRMAN DOMENICI

Chairman DOMENICI. The committee will come to order.

We are going to have a number of Senators attending—they are not here yet, but I think the subject matter has pricked their fancy, and a number will be here. Maybe they just want to hear from Mr. Grace and not from you two—maybe that is why they are not here.

I welcome back to the committee this afternoon you, Dr. Penner, head of the Congressional Budget Office, and of course, Peter Grace. Mr. Grace is not here presently but will obviously testify immediately after Mr. Penner. He is Chairman of the President's Private Sector Survey on Cost Control. I am also pleased to have the Comptroller General, Mr. Charles Bowsher, here this afternoon as we revisit the Grace Commission report.

A number of Senators indicated that they would like that report to be given further analysis. Obviously, the committees can do their own work on it, but we have asked both the Congressional Budget Office and your agency to do the analysis.

Last November, the committee held its first hearings on that Report. At that hearing, we received Mr. Grace's testimony and some of the recommendations, which projected the result of $300 billion in savings over 3 years. Most recently, the Commission report was finally transmitted to the President, showing the 3-year savings, as they figure it, of $424 billion, plus accelerated cash payments of $66 billion. Following that November hearing, the committee staff held 5 formal meetings with Commission managers, covering 17 of the 36 special reports. Last November, as part of the committee's review, Senator Chiles and I requested that the CBO and the GAO, as I indicated a few minutes ago, prepare an analysis as careful as they could of the recommendations that related to cost-saving estimates embodied in the report. In addition to these cost-saving estimates, we asked that the analysis: One, identify those recommendations which required legislation to implement; two, evaluate the reasonableness of the recommendations, based on prior GAO and CBO analysis, and three, evaluate the potential time frame for implementing the various recommendations.

I recognize that part of this is asking you to do what perhaps Congress ought to do, collectively or otherwise, but basically, we think it is an historic joint undertaking. The purpose of this afternoon is to receive the final CBO/GAO analysis, and following it, of course, Mr. Grace will comment. I think he is aware of what you have said and what your report reveals, so even if he is not here for your initial testimony, he knows what you are discussing.

It should be clear that, as I have stated on previous occasions, some combination of reduced spending and increased revenues is required if we are to address the serious fiscal problems facing this country. I think the Grace Commission has helped Congress focus attention on the spending reduction side. As we begin the task of developing a budget, this committee, in a very responsible and careful manner, will have met the President's challenge to look at the Grace Commission's recommendations for possible cost savings. That is one of the reasons we thought we ought to do this.

So, I want to thank Mr. Grace and those who helped him. I also want to express our appreciation to you, Dr. Penner, and you, Mr. Bowsher, and your staffs, because I think it must have been a very, very difficult job, taking a lot of time. We hope that it was not in vain.

Senator Chiles?

OPENING STATEMENT OF SENATOR CHILES

Senator Chiles. Mr. Chairman, I want to welcome our panelists here today to update the status of the Grace Commission recommendations.

The Congressional Budget Office told us a week or so ago that unless we change the direction of the current budget, we could be facing a deficit in 1989 of more than $300 billion.

The Grace Commission suggests that unless we adopt their recommendations, the deficit in the year 2000, the deficit alone, could be nearly $2 trillion.

If that happens, it would be more than a disaster; it could mean our economic epitaph.

So I am always eager to look at any ideas that can lead to lower deficits. With that in mind, I want to applaud the work of the Grace Commission. Many people have spent many long hours examining thousands of programs of the Government, and it produced nearly 2,500 suggestions for cutting the Federal deficit.

My primary concern is to deliver on those recommendations. I think that we will make a serious mistake if we paint the promises of the Commission in such a bright color that no matter what we do, it will come across as a disappointment.

PROBLEMS HAVE DEVELOPED

It is in that spirit that the Congressional Budget Office and the General Accounting Office have been requested to examine the Grace proposal and to see just how much can really be lopped off the deficit by those proposals. As might be expected, some problems have developed. The Grace panel estimated we would save $424 billion over 3 years by adopting their recommendations. Somehow the notion got out that the 3 years in question were the next 3 years, and from that notion, I think, Mr. Chairman, you have had the same thing happen. I have seen newspaper editorials that say all we have to do is adopt those recommendations, and there is no deficit in the next 3 years; everything is solved.

I think the Grace panel was simply referring to any 3-year period following the adoption of a specific deficit-cutting measure.

The GAO/CBO study was unable to deal with each of the nearly 2,500 recommendations, so they limited their review to those which would produce savings of $1 billion or more in the next 3 years. That left them with 396 recommendations. They concluded that these recommendations would produce deficit reductions of approximately $98 billion, about one-third of the Grace estimate.

The core accounting issue here is that CBO and the GAO analysis used Federal budget quality figures, while the Grace panel used planning figures, something much more common in the private sector. So, what we have to do, I think, is to arrive at some common realistic figure about what deficit cuts are actually possible, and then we can go ahead and see which ones we can actually implement.

That leaves us with another issue. Earlier this month, the Senate Finance Committee was promised a list of deficit reduction measures which the White House could initiate on its own, right now. I am not certain whether that list is available yet, but since the President has high personal interest in these panel recommendations, I think we could all benefit if he could go ahead and begin to implement them. I hope you will address that issue today.

Finally, there seems to be some disagreement about how many of these recommendations would actually require congressional action. That is something I would like to examine a little more carefully and in a more focused manner during this hearing.

I have often said that everything has got to be on the table if we really want to cut the deficit. I hope this hearing today will help us to attach precise and refined estimates to the Grace panel recommendations. There is no question the panel has found many legitimate areas to reduce the deficit, and we must make the most of that opportunity.

Chairman **Domenici**. Thank you very much, Senator Chiles.

Senator Hatch is unable to attend todays hearing but has a prepared statement I would like to insert in the record. Without objection, it will be inserted at this time.

[The statement of Senator Hatch follows:]

STATEMENT OF SENATOR HATCH

Gentlemen, I am pleased that you are here today to assist us in evaluating the Grace Commission Report with an eye to implementing, if possible, its recommendations for cutting the cost of government.

Frankly, I think their approach is right: It is excessive governmental spending which causes the deficits which all of us—some later converts than others—decry.

President Reagan's 1981 tax-rate reductions didn't cause these deficits, but only reduced the burden on the American taxpayer to its traditional postwar burden. Those who keep crying for more taxes should note that governmental revenues are at their traditional postwar level as a percentage of our Gross National Product.

Nor is spending on things for which government is the only provider—like national defense, and law enforcement, and other truly national needs—the cause of our deficits. Defense spending, for example, constitutes a far lower percentage of total governmental expenditures now than it did in the '60s.

But, total government spending as a percentage of our GNP—Now, that's what's too high! Cutting government spending by making it more efficient is the major impetus of the Grace Commission Report. We should make use recommendations wherever possible.

I also hope, however, that the Grace Commission Report will spur us to ask the larger question: Is our government doing only the things that *it* can do and that we need it to do? Or, have we burdened our government with tasks that are more efficiently and productively done by the private sector? We must cut especially this type of excessive government spending.

Chairman **DOMENICI**. Now we will proceed.

Dr. Penner?

STATEMENT OF DR. RUDOLPH G. PENNER, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Dr. **PENNER**. Thank you very much.

Mr. Chairman, I am pleased to appear here today with the Comptroller General, Charles Bowsher, to report on the results of our joint review of the Grace Commission's major proposals for cost control.

We undertook this analysis at the request of both Budget Committees. Copies of our joint report have been distributed to members, and our statements this afternoon will summarize our findings.

Both the Congressional Budget Office and the General Accounting Office devoted considerable effort to this task, and I would especially like to praise our respective staffs. This task occurred for us at the same time that we were working on four other major reports related to our annual report and the analysis of the President's budget. So our staff were really working almost around the clock. Special praise is due to Jim Blum, who supervised the effort from our side, and Bob Faherty, who got it ready for publication, and all of their respective staffs, and to Pete McGough, who made it very easy for us to work with GAO.

FOCUS OF THE CBO-GAO ANALYSIS

We reviewed nearly 400 of the 2,478 recommendations made by the Grace Commission, officially known as the President's Private Sector Survey on Cost Control. While this amounts to only 16 percent of the total number of recommendations contained in 47 separate survey reports, the recommendations reviewed account for nearly 90 percent of the net 3-year cost savings and revenue increases estimated by the Commission in its final report to the President.

As Senator Chiles said in his opening statement, we focused our review on those recommendations that the Grace Commission estimated would produce savings of $1 billion or more over a 3-year period.

This was the first time that the CBO and GAO undertook a joint study effort. The collaboration worked splendidly, and I hope that the committee will find the results useful.

Our division of labor was as follows. The CBO undertook to estimate, to the extent possible, the potential impact of the Grace Commission's proposals on our baseline projections for fiscal years 1985–89 and to analyze their likely program impact. The GAO analyzed whether the proposals could be implemented administratively or would require legislation, and provided invaluable assistance to us in estimating possible budget savings and program impact.

In accordance with our mandate, CBO takes no position on the relative merits of the Grace Commission recommendations. However, GAO's views on the merits of the recommendations are included in the report in a number of instances based on previous or continuing reviews and evaluations.

I will focus the remainder of my remarks on the results of CBO's budget analysis of those Grace Commission recommendations that we reviewed. Comptroller General Bowsher will give you the results of the GAO's analysis.

POTENTIAL BUDGETARY IMPACT

For purposes of analysis and discussion, our report groups the 396 Grace Commission recommendations selected for review into 90 separate sets of proposals. It was possible to develop estimates of potential budgetary impact for 67 of these 90 sets. For the other 23 sets of proposals reviewed, budget estimates could not be prepared because either the proposals were too vague or the available information too scant.

Our savings estimates for those Grace Commission proposals that we could measure against our baseline projections for fiscal years 1985–89 are summarized in table 1. Assuming that these proposals are implemented by October 1, 1984, we estimate that they could result in unified budget deficit reductions of about $15 billion in 1985, and nearly $70 billion by 1989. The cumulative 5-year reductions from CBO's baseline projections amount to $194 billion, including lower net interest costs of $34 billion as a result of lower deficits. Reductions in off-budget spending would add another $7 to $8 billion annually during the next 5 years. The total deficit reduction effect for 1985–89 is projected to be $233 billion.

Focusing on just the next 3 years, 1985 to 1987, which will be the period covered by the next Congressional budget resolution, the CBO estimate for total deficit reductions comes to $98 billion for those Commission proposals for which we could measure a possible budget impact.

This is considerably below the figure of $298 billion that the Grace Commission has used as its estimate of potential savings over a 3-year period for the corresponding proposals. I will discuss later in my statement the reasons for the differences in the estimates.

Although the majority of the Grace Commission recommendations can be characterized as management proposals to achieve greater efficiencies or to operate on a more businesslike basis, the bulk of the cost savings estimated by both the CBO/GAO study and by the Commission are often associated with very dramatic proposals to change policies or to restructure programs.

Many of these policy change proposals go far beyond any recently contemplated by the Congress, and all of them would require congressional action.

The following sections in my prepared testimony give you some flavor of the nature of the recommendations. To illustrate a particularly far-reaching proposal, I shall focus my discussion only on health care delivery.

The Commission recommends limiting the growth of health care expenditures to the annual change in the——

Chairman DOMENICI. Dr. Penner, I did not hear the preface to your testimony to health care. Did you say in order to save time?

Dr. PENNER. Yes. I am sorry.

Chairman DOMENICI. So that your specifics on national defense and others stand as written for incorporation in the record, but you are going to give us one major example?

Dr. PENNER. That is right, sir.

Chairman DOMENICI. All right.

The entire statement will be made a part of the record.[1]

LIMIT THE GROWTH OF HEALTH CARE EXPENDITURES

Dr. PENNER. The Commission recommends limiting the growth of health care expenditures to the annual change in the gross national product. In conjunction with this expenditure cap, it also proposes a dramatic restructuring of Federal health care programs. Though the specifics of the Commission's plan are not fully developed, it apparently would apportion Federal health funds among geographic regions on a per capita basis that also reflected regional variations in health care costs Moneys would go to private, state, and local bidders competing for service contracts. What services would be provided are not clearly outlined.

The CBO budget estimate for this proposal assumes that such a major program restructuring would take at least 2 years to put into place. By 1989, CBO projects that limiting health care expenditures to GNP growth would reduce medicare/medicaid outlays by 10 percent from baseline projections of current law and produce total savings of $29 billion during the 1987-89 period.

Chairman DOMENICI. That is versus how much—you are getting $29 billion for those 3 years, and what did the Grace Commission say?

CBO'S ESTIMATES OF SAVINGS SMALLER THAN THE COMMISSION'S

Dr. PENNER. That would be the same—$29 billion.

In its final report to the President, delivered only a little more than 1 month ago, the Grace Commission estimated that implementation of its nearly 2,500 recommendations would produce savings of $424 billion over 3 years. This is considerably higher than the savings of $233 billion CBO estimated for the next 5 years that could result from the 396 Commission recommendations that we reviewed. What accounts for this difference?

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[1] See page 10.

First, the Grace Commission estimates and the CBO estimates are not fully comparable. The CBO estimates were calculated in Federal budget accounting firms for fiscal 1985-89, whereas the Commission's estimates are characterized as planning figures and do not refer to specific fiscal years.

In some instances, the Commission reports acknowledge that their recommendations could not be implemented in the next 3 years and that some would not produce savings until the 1990's and even later. In other instances, the Commission calculated its savings in terms not generally used for the Federal budget, and as a result, they are not true indicators of possible deficit reductions in the next 4 to 5 years.

For example, the Commission's savings estimates for its proposed changes in Federal civilian and military retirement benefits are based on projected payroll costs in the years 2001 to 2003 and have been discounted to their 1983 estimated value. While this accrual accounting approach is similar to the new treatment for military retirement costs in the 1985 defense budget, it greatly overstates the near-term budget impact for reducing projected Federal deficits.

Second, the Commission carefully stated in its report that its figures were of a planning nature and not of budget quality. Furthermore, the Commission noted that its recommendations were not all based on the same level of research and analysis and, as a result, the planning figures were not all of the same quality.

The CBO estimates, on the other hand, adhered to a strict methodology. Potential budgetary savings were measured against the unified and fully documented set of budget projections for the next 5 fiscal years. Potential outlay savings or revenue gains were estimated only for those recommendations reviewed that were sufficiently specific to provide a basis for cost analysis and for which data were available to develop a budget estimate.

The estimates also assume that any needed congressional action would be taken this year and that the proposals would be implemented at a reasonable pace, in line with past administrative performance.

MANY OF THE COMMISSION'S PROPOSALS ALREADY INCLUDED IN THE BASELINE

A comparison of the Grace Commission 3-year savings estimates with the CBO budget estimates for fiscal years 1985-87 is shown in table 2[1] for those Commission recommendations included in our review. In a number of cases, we found that the Commission's proposals would have no impact on the CBO baseline projections, because they are already being implemented and are included in the baseline, or their impact would have come after 1989. In a few instances, we found that the Commission's proposals would entail added costs when measured against the CBO baseline, such as the proposals to reform pay for Federal blue-collar workers. Because annual pay raises have been limited for a number of years, the catch-up in pay levels to achieve comparability would exceed the savings under the Commission's plan. Thus, it would not produce savings, but would raise costs.

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[1] See page 25.

In other instances, the CBO budget estimates for 1985-87 are larger than the net 3-year savings projected by the Grace Commission. The largest difference is for the effect of the Commission's proposal to replace direct loan programs with loan guarantees. The CBO savings estimate includes the effects of this proposal for off-budget financing of these loans by the Federal Financing Bank, which is not included in the Commission's estimates.

In most cases, however, where CBO could develop specific budget estimates for the recommendations reviewed, we project smaller savings during the next 3 fiscal years than implied by the Commission's planning figures. As shown in table 2, the total savings estimated by CBO for 1985–87, including lower interest costs and off-budget savings, for the proposals for which budget estimates could be made, is 33 percent of the $298 billion net 3-year savings figure estimated by the Commission.

The potential deficit reductions for 1985-87 resulting from the adoption of all of the Grace Commission recommendations could be larger than CBO has estimated, since the CBO estimates apply to only 70 percent of the savings projected by the Commission. Also, the CBO estimates do not include possible dynamic budget effects resulting from induced changes in the economy, especially lower interest rates brought about by lower budget deficits.

ESTIMATES OF SAVINGS ARE OVERSTATED

On balance, however, it is CBO's judgment that the Grace Commission estimates of possible savings that could be derived from its recommendations during the next 3 years are overstated. This judgment apparently is shared by the Grace Commission. In recent testimony before the Senate Finance Committee, Mr. Grace estimated the Commission's 3-year savings estimate of $424 billion did not refer to particular fiscal years, and certainly not the next 3 years.

Most of the Grace Commission recommendations involve various management improvements that could be implemented administratively. The bulk of the potential savings, however, relate to recommendations that would require significant changes in current law and policy. The Federal spending generated by the policies and programs studied by the Grace Commission has been subject to close scrutiny before and should continue to be reviewed for possible savings. The magnitude of the savings projected by the Grace Commission for its purposes in these areas, however, is much too large to be attributed simply to eliminating waste and inefficiency. Rather, the Commission's proposals should be characterized for the most part as possible changes in public policy that could help reduce mounting Federal deficits.

These proposals all represent tough decisions with difficult tradeoffs. The CBO/GAC analysis reveals that the Grace Commission has not found an easy solution to the Federal deficit problem, although it has helped to focus attention within the administration and the Congress on some ways to control the rising cost to government.

Thank you.

Chairman DOMENICI. Thank you very much, Dr. Penner.

[The prepared statement of Dr. Penner follows:]

Statement of
Rudolph G. Penner
Director
Congressional Budget Office

Mr. Chairman, I am pleased to appear here today with the Comptroller General, Charles Bowsher, to report on the results of our joint review of the Grace Commission's major proposals for cost control. We undertook this analysis at the request of both Budget Committees. Copies of our joint report have been distributed to Members, and our statements this afternoon will summarize our findings.

FOCUS OF THE CBO-GAO ANALYSIS

Both the Congressional Budget Office (CBO) and the General Accounting Office (GAO) devoted considerable effort to this task. We reviewed nearly 400 of the 2,478 recommendations made by the Grace Commission, officially known as the President's Private Sector Survey on Cost Control (PPSSCC). While this amounts to only 16 percent of the total number of recommendations contained in 47 separate Survey reports, the recommendations reviewed account for nearly 90 percent of the net three-year cost savings and revenue increases estimated by the commission in its final report to the President.

We focused our review on those recommendations that the Grace Commission estimated would produce savings of $1 billion or more over a three-year period for two reasons:

- First, we had only a short time to devote to this task. The commission's final report to the President was not completed until mid-January, as were several of the separate task force reports.

- Second, given the magnitude of the budget deficits facing us in the coming years under current policies, we believed it essential to direct our analysis toward those commission recommendations that potentially could produce the largest budgetary savings.

This was the first time that the CBO and GAO undertook a joint study effort. The collaboration worked splendidly and I hope that the Committee will find the results useful. Our division of labor was as follows: The CBO undertook to estimate--to the extent possible--the potential impact of the Grace Commission proposals on our baseline projections for fiscal years 1985-1989, and to analyze their likely program impact. The GAO analyzed whether the proposals could be implemented administratively or would require legislation and provided invaluable assistance to us in estimating possible budget savings and program impact.

In accordance with our mandate, CBO takes no position on the relative merits of the Grace Commission recommendations. However, GAO's views on the merits of the recommendations are included in the report in a number of instances based on previous or continuing reviews and evaluations.

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Our savings estimates for those Grace Commission proposals that we could measure against our baseline projections for fiscal years 1985-1989 are summarized in Table 1. Assuming that these proposals are implemented by October 1, 1984, we estimate that they could result in unified budget deficit reductions of about $15 billion in 1985 and nearly $70 billion by 1989. The cumulative five-year reductions from CBO's baseline projections amount to $194 billion, including lower net interest costs of $34 billion as a result of lower deficits. Reductions in off-budget spending would add another $7-$8 billion annually during the next five years. The total deficit reduction effect for 1985-1989 is projected to be $233 billion.

Focusing on just the next three years--1985 to 1987--which will be the period covered by the next Congressional budget resolution, the CBO estimate for total deficit reductions comes to $98 billion for those commission proposals for which we could measure possible budget impact. This is considerably below the figure of $298 billion that the Grace Commission has used as its estimate of potential savings over a three-year period for the corresponding proposals. I will discuss later in my statement the reasons for the difference in these estimates.

TABLE 1. CBO SAVINGS ESTIMATES FOR MAJOR GRACE COMMISSION PROPOSALS (By fiscal year, in billions of dollars)

	Annual Savings or Revenue Increases					Cumulative Five-Year Impact
	1985	1986	1987	1988	1989	
Savings from CBO Outlay Baseline						
National defense	1.7	5.3	2.1	1.9	2.6	13.7
Entitlements and other mandatory spending programs	2.8	3.9	8.3	14.5	21.1	50.6
Nondefense discretionary spending and offsetting receipts	3.5	3.7	4.7	5.2	6.2	23.3
Federal civilian employment and compensation	3.2	4.1	5.7	7.8	9.3	30.2
Subtotal						
Addition to CBO Revenue Baseline	2.5	5.0	8.7	11.4	14.3	42.1
Reduction in Interest Costs	0.8	2.7	5.6	9.7	15.3	34.2
Unified Budget Deficit Reduction	14.5	24.7	35.2	50.4	68.9	194.0
Off-Budget Outlay and Deficit Reduction	6.7	8.3	8.4	8.2	7.7	39.3
Total Deficit Reduction	21.3	33.0	43.6	58.6	76.6	233.3

Although the majority of the Grace Commission recommendations can be characterized as management proposals to achieve greater efficiencies or to operate on a more business-like basis, the bulk of the cost savings estimated by both the CBO-GAO study and by the commission are associated with often very dramatic proposals to change policies or to restructure programs. Many of these policy-change proposals go far beyond any recently contemplated by the Congress, and all of them would require Congressional action.

National Defense Programs

The budgetary savings that we could identify for national defense programs are small—only $14 billion over five years—because the budget impact for most of the 112 recommendations could not be estimated. The Grace Commission gave considerable attention to reviewing defense programs. Four task forces were assigned to conduct separate reviews of the Department of Defense, and eight other commission reports also made recommendations for achieving cost savings. But the bulk of the recommendations were not sufficiently specific to develop a good budget impact estimate.

This does not mean that the commission's recommendations for defense program savings lack merit or are ill conceived. Indeed, the task force recommendations generally are based on widely accepted principles of good management and efficiency. Many of these recommendations have been previously proposed by the General Accounting Office and also cover many of the same areas that were included in the so-called Carlucci initiatives announced by the Defense Department in 1981. These initiatives include use of multiyear procurement, dual-sourcing of procurement contracts, and more efficient production rates, as well as other means to improve management of the procurement process, all of which were major Grace Commission proposals.

The Survey task force estimates of potential savings for most defense recommendations, at best, are illustrative and are not founded on historical data, detailed analyses, specific budget proposals of programmatic changes. Many of their estimates are based on judgmental assumptions based on industry experience that we could not validate. While their cost estimates may be adequate for illustrative purposes, more programmatic information is needed for purposes of making budget estimates.

The Grace Commission proposals for national defense programs for which we could measure budgetary impact include reforms in military retirement pay, revisions in military commissary operations, two medical cost proposals, removal of restrictions on silver stockpile sales, and revision of progress payment rates for DoD contracts. The commission proposal that would have the largest measurable budget impact in the next five years is reform of military retirement pay to make benefits more comparable to those in the private sector. Similar proposals are made by the commission for federal civilian employee retirement benefits as well. They include such changes as raising the retirement age, figuring pensions on lower final salary averages, reducing cost-of-living adjustments, and integrating federal pensions with Social Security. The budget outlay impact of these proposals during the next five years would be relatively modest, but would be significant on budget authority for military retirement benefits, which will be shown in the budget on an accrual basis beginning in 1985.

Entitlements and Other Mandatory Spending Programs

The Grace Commission advanced an array of proposals for cutting spending on entitlement programs, based on a judgment that many program benefits may be too generous or available to too many people. Accordingly, the commission recommends policy changes that would reduce either the size or the availability of benefits, or both. While other proposals in this area seek to improve program administration, by far the greatest savings potential lies in revising policies and restructuring programs.

We analyzed 43 different Grace Commission recommendations for entitlement and other mandatory spending programs. The estimated budget savings for the next three years is relatively modest, but over five years could exceed $50 billion. The largest saving would be in the area of federal health care programs, where the commission recommends limiting the growth of health care expenditures to the annual change in the gross national product (GNP). In conjunction with this expenditure cap, it also proposes a dramatic restructuring of federal health care programs. Though the specifics of the commission's plan are not fully developed, it apparently would apportion federal health funds among geographic regions on a per capita basis that also reflected regional variations in health care costs. Monies would go to private, state, and local bidders competing for service contracts. What services would be provided are not clearly outlined. The CBO budget estimate for this proposal assumes that such a major program restructuring would take at least two years to put into place. By 1989, CBO projects that limiting health care expenditures to GNP growth would reduce Medicare-Medicaid outlays by 10 percent from baseline projections of current law, and produce total savings of $29 billion during 1987-1989.

Other Grace Commission proposals that CBO and GAO reviewed in this area included reductions in food stamp benefits, guaranteed student loans, railroad retirement benefits, and Social Security disability insurance benefits. In addition, the commission suggests increasing the premiums that private firms pay to the Pension Benefit Guarantee Corporation. Together, these other proposals are estimated to reduce budget outlays by another $22 billion over the next five years.

Nondefense Discretionary Spending and Offsetting Receipts

The Grace Commission made numerous recommendations affecting nondefense discretionary spending--a category that encompasses areas as widely varying as federal highway assistance, health care for veterans, agricultural loans, research and development spending, and the day-to-day operations of most arms of the federal government. Other proposals would affect offsetting receipts--for example, income from the sale of government-owned natural resources--that are subtracted from spending in calculating net federal outlays. The commission proposal in this area that would have the largest budget impact would reduce off-budget spending, which is not recorded as part of the unified budget but which affects total federal borrowing needs.

We reviewed 133 different Grace Commission recommendations that are classified in this area of the budget and estimate that possible budget savings--where these could be estimated--would amount to $10 billion in 1985 and $12 to $14 billion annually over the next four years. The cumulative five-year total would amount to over $60 billion, assuming implementation starting October 1, 1984. Almost all of the potential savings would require Congressional action. The recommendations fall into four general categories: modifying loan programs and altering federal debt-collection practices; modifying spending programs; increasing receipts from the sale of natural resources or federally provided services; and making more efficient use of government funds and general management improvements.

By far the largest five-year savings in this entire spending area would result from the proposal to replace certain direct loan programs with loan guarantees. The commission proposes to convert the direct loan programs of the Farmers Home Administration and the major business loan programs of the Small Business Administration into guaranteed loan programs, with the government guaranteeing no more than 75 percent of the principal amount. This would transfer more responsibilities and risk to the private sector and encourage more careful selection of loan recipients. On the other hand, such a shift would increase borrowers' costs in those programs that currently have subsidized interest rates, thus reducing the programs' ability to serve households and businesses with limited financial resources.

CBO estimates that this change alone would reduce total government outlays--both on and off budget--by more than $40 billion over the 1985-1989 period, largely because loan disbursements averaging about $9 billion per year would be forgone. Long-term savings would be appreciably less, however, because the federal government would also forgo the repayments, which currently stretch out as long as 50 years.

Federal Civilian Compensation and Work Force Management

The Grace Commission proposes several ways to reduce the federal costs--now some $75 billion a year--of compensating the government's 2.1 million civilian employees (excluding postal workers) and its 2 million civilian retirees and survivors. The proposals to reduce costs fall into two categories: changes in federal compensation policy covering levels of pay and employment benefits to achieve what the commission believes would be a closer alignment with the private sector, and management initiatives that would result in a smaller civilian work force.

According to CBO estimates, the commission's recommendation's offer potential budgetary savings approaching $30 billion over the next five years. By far the greatest savings would come from restructuring the contributions to and benefits from the Civil Service Retirement system, along the lines I mentioned earlier in describing the commission's proposals for defense programs.

In addition, the Grace Commission recommends policy changes for disability benefits and health care coverage, and altering both the methods of calculating annual wage and salary adjustments and the grade levels held by many workers under the General Schedule system. It also proposes a number of management initiatives which could be implemented administratively and produce budget savings of $5 billion or more over the next five years. These concentrate largely on contracting out to the private sector for support services and improving work force productivity.

Revenues

The Grace Commission reports offer several revenue-raising proposals that could help to narrow the long-term federal deficit. The revenue proposals include four tax policy recommendations--one of which has already been enacted--and several initiatives that could mean more efficient management of the federal government's cash flow. Of the tax policy recommendations, the most far-reaching is the proposal calling for the taxation of federal subsidy payments. The management initiatives include shortening tax deferral periods allowed some taxpayers and accelerating the government's deposit of tax and other receipts. CBO estimates that the overall increase in revenues from these proposals--not counting one proposal that CBO could not estimate--could amount to more than $40 billion during the next five years.

The scope of the Grace Commission proposal to tax federal subsidies is very broad, ranging from cash benefits under Social Security or Aid to Families with Dependent Children (AFDC) to in-kind goods and services such as food stamps and Medicaid. In particular, the commission sees poor targeting and duplication of benefits to individuals qualifying for several means-tested programs as giving rise to substantial waste of federal dollars. Besides the potential increase in tax receipts, the commission sees improved targeting of means-tested benefits as an important effect from taxing federal subsidies. Although the Survey report on Federally Subsidized Programs discusses the inclusion of all federal subsidies in taxable income, the estimated savings in the report result solely from the taxation of means-tested benefits. CBO estimates that taxation of means-tested benefits could raise as much as $15 billion over the 1985-1989 period.

A second major revenue raiser recommended by the Grace Commission would be derived by augmenting the Internal Revenue Service's staffing for collection of delinquent taxes and examination of tax returns, and from the accelerated disposition of tax cases brought before the U.S. Tax Court. CBO estimates revenue increases amounting to $13 billion over the next five years. The commission's proposal to limit the use of tax-exempt bonds for private purposes would add another $9.5 billion during 1985-1989.

COMPARISON WITH GRACE COMMISSION ESTIMATES

In its final report to the President, delivered only a little more than a month ago, the Grace Commission estimated that implementation of its nearly 2,500 recommendations would produce savings of $424 billion over three years. This is considerably higher than the savings of $233 billion CBO estimated for the next five years that could result from the 396 commission recommendations that we reviewed. What accounts for this difference?

First, the Grace Commission estimates and the CBO estimates are not fully comparable. The CBO estimates were calculated in federal budget accounting terms, for fiscal years 1985-1989, whereas the commission's estimates are characterized as planning figures and do not refer to specific years. In some instances, the commission reports acknowledge that their recommendations could not be implemented in the next three years, and that some would not produce savings until the 1990s or even later. In other instances, the commission calculated its savings in terms not generally used for the federal budget, and as a result are not true indicators of possible deficit reductions in the next three-to-five years. For example, the commission's savings estimates for its proposed changes in federal civilian and military retirement benefits are based on projected payroll costs in the years 2001 to 2003 and have been discounted to their 1983 estimated value. While this accrual accounting approach is similar to the new treatment for military retirement costs in the 1985 defense budget, it greatly overstates the near-term budget impact for reducing projected federal deficits.

Second, the commission carefully stated in its reports that its figures were of a "planning" nature and not of "budget" quality. Furthermore, the commission noted that its recommendations were not all based on the same level of research and analysis and, as a result, the planning figures were not all of the same quality.

The CBO estimates, on the other hand, adhered to a strict methodology. Potential budgetary savings were measured against a uniform and fully documented set of budget projections for the next five fiscal years. Potential outlays savings or revenue gains were estimated only for those recommendations reviewed that were sufficiently specific to provide a basis for cost analysis and for which data were available to develop a budget estimate. The estimates also assume that any needed Congressional action would be taken this year, and that the proposals would be implemented at a reasonable pace in line with past administrative performance.

While I believe our budget estimates are reasonably good, I should note that in a number of instances they are based on estimating assumptions that may not accurately reflect what the commission had in mind in making its proposals. We could not always find the basis for the commission's estimates in its published reports or background materials.

A great amount of uncertainty should also be attached to many of the Survey and CBO savings estimates, particularly for proposals that call for substantial change in current laws, policies, and administrative practices. The past is not always a good guide for predicting how substantial changes would affect future government spending and revenues, so our estimating assumptions may not prove to be correct.

Finally, many of the proposals by the Grace Commission are duplicative and would have interaction effects. Both the commission and

CBO tried to eliminate these effects in arriving at an overall total, but I suspect we did not catch all of them and, therefore, our estimates for potential savings, if anything, are too high.

A comparison of the Grace Commission three-year savings estimates with the CBO budget estimates for fiscal years 1985-1987 is shown in Table 2 for those commission recommendations included in our review. In a number of cases, we found that the commission's proposals would have no impact on the CBO baseline projections because they are already being implemented and are included in the baseline, or their impact would come after 1989. In a few instances, we found that the commission's proposals would entail added costs when measured against the CBO baseline, such as the proposals to reform pay for federal blue-collar workers. Because annual pay raises have been limited for a number of years, the catch-up in pay levels to achieve comparability would exceed the savings under the commission's plan. Thus, it would not produce savings but would raise costs.

In other instances, the CBO budget estimates for 1985-1987 are larger than the net three-year savings projected by the Grace Commission. The largest difference is for the effect of the commission's proposal to replace direct loan programs with loan guarantees. The CBO savings estimate includes the effect of this proposal for off-budget financing of these loans by the Federal Financing Bank, which is not included in the commission's estimates.

TABLE 2. A COMPARISON OF THREE-YEAR SAVINGS ESTIMATES (Savings in billions of dollars)

	No. of CBO-GAO Analyses	No. of PPSSCC Rec's.	PPSSCC 3-Year Planning Ests.	CBO Budget Estimates for 1985-1987
Budget Impact Estimates Could Be Made				
No budget impact	8	21	13.2	0
Added costs rather than savings	4	29	8.5	-1.8
Greater savings than estimated by PPSSCC	9	22	5.9	33.0
Lower savings than estimated by PPSSCC	46	202	270.8	66.7
Subtotal	67	274	298.4	97.9
Budget Impact Estimates Could Not Be Made	23	122	80.7	N.A.
Total	90	396	379.0	N.A.

In most cases, however, where CBO could develop specific budget estimates for the recommendations reviewed, we project smaller savings during the next three fiscal years than implied by the commission's planning figures. As shown in Table 2, the total savings estimated by CBO for 1985-1987, including lower interest costs and off-budget savings, for the proposals for which budget estimates could be made is 33 percent of the $298 billion net three-year savings figure estimated by the commission.

The potential deficit reductions for 1985-1987 resulting from the adoption of all of the Grace Commission recommendations could be larger than CBO has estimated, since the CBO estimates apply to only 70 percent of the savings projected by the commission. Also, the CBO estimates do not include possible dynamic budget effects resulting from induced changes in the economy, especially lower interest rates brought about by lower budget deficits. On balance, however, it is CBO's judgment that the Grace Commission estimates of possible savings that could be derived from its recommendations during the next three years are overstated. This judgment apparently is shared by the Grace Commission.

In recent testimony before the Senate Finance Committee, Mr. Grace emphasized that the commission's three-year savings estimate of $424 billion did not refer to particular fiscal years and certainly not the next three. He identified a number of proposals, however, that he thought could produce savings of $59 billion over the next three years. While not agreeing necessarily with the specific savings estimates attached to those commission proposals singled out by Mr. Grace for quick action, CBO does agree that savings of this magnitude are a more reasonable estimate of what could be achieved during the next three years by implementing the commission's many recommendations.

CONCLUDING REMARKS

Most of the Grace Commission recommendations involve various management improvements that could be implemented administratively. The bulk of the potential savings, however, relate to recommendations that would require significant changes in current laws and policies. The federal spending generated by the policies and programs studied by the Grace Commission has been subject to close scrutiny before and should continue to be reviewed for possible savings. The magnitude of the savings projected by the Grace Commission for its purposes in these areas, however, is much too large to be attributed simply to eliminating waste and inefficiency. Rather, the commission's proposals should be characterized for the most part as possible changes in public policy that could help reduce mounting federal deficits.

These proposals all represent tough decisions with difficult tradeoffs. The CBO-GAO analysis reveals that the Grace Commission has not found an easy solution to the federal deficit problem, although it has helped to focus attention within the Administration and the Congress on some ways to control the rising cost of government.

Chairman Domenici. Before I go to our next witness, let me ask, did the arrangement wherein your two agencies were asked to do this work? Dr. Penner has indicated, Mr. Bowsher, that it worked well, and that you did have the capacity to complement each other.

Do you agree with that?

Mr. Bowsher. Yes, I do, Mr. Chairman. It worked very well, and our two staffs worked very well together.

Chairman Domenici. Do you want to make some remarks? We would very much like to hear what you have to say.

Mr. Bowsher. Yes, Mr. Chairman. I would be pleased to do that. What I have done is shorten my statement in places so as not to take up too much time, but I would like to put the full statement in the record.

Chairman Domenici. It will be made a part of the record.[1]

STATEMENT OF CHARLES A. BOWSHER, COMPTROLLER GENERAL OF THE UNITED STATES

Mr. Bowsher. Thank you.

Mr. Chairman and members of the Committee, I am pleased to be here today to join with CBO in presenting the results of our respective analysis of the major proposals of the Grace Commission. At the outset, I would like to comment that the Commission's charter, to identify excessive Federal expenditures and improve Federal Government management, closely parallels our own.

We share the Commission's concern over extraordinary budget deficits and the need to shrink them to manageable proportions.

Recognizing the importance of the mission, GAO cooperated with the Commission's 36 task forces in their efforts to identify areas of savings potential. We provided hundreds of GAO reports and made our staff available for further information as needed.

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[1] See page 36.

COMMISSION'S PROPOSALS ARE CONSISTENT WITH GAO'S

While GAO had no role in developing the Commission's findings, conclusions or recommendations, many of its proposals are consistent with those we have made in the past. The 48 separate Commission reports contain many management improvement recommendations, and many that require policy and program changes. These latter recommendations will undoubtedly be the focus of considerable congressional debate, and we hope our assessments here today will prove useful.

Before presenting the details of our analysis, let me underline two fundamental concerns we have about the results of the Grace Commission's work. They are similar to the ones that Dr. Penner has identified.

First, we share his finding that many of the Commission's savings estimates are considerably higher than can be reasonably expected. Our fear is that action on many worthwhile Commission recommendations will be jeopardized by widespread recognition that the associated savings estimates are significantly overstated. Second, we are concerned that the Commission, in its final report and elsewhere, characterized its proposals as actions needed to reduce waste, abuse, and inefficiency in the Federal Government, when much of its work and identified savings potential more precisely concern policy and legislative readjustments. For example, a number of the proposals with the largest savings estimates involve such policy issues as taxing Federal subsidies, revising military retirement pay, and extending the retirement age of Federal civilian personnel.

It is our hope that the Commission's efforts to promote its work will not be counterproductive and detract from the cost-cutting and management improvement proposals presented.

These concerns notwithstanding, we found a good deal to agree with in the 400 Commission recommendations we examined. In fact, we found that nearly two-thirds of the individual recommendations have overall merit. For about one-third of the recommendations we examined, GAO had made a related recommendation in the past.

It is important to note, however, that our general agreement with about two-thirds of the individual recommendations does not translate into agreement with a proportionate amount of the estimated savings. A number of the proposals with the largest associated savings estimates are those we could not support. I will cite some examples later in my statement.

Chairman **Domenici**. Excuse me for interrupting, but could I ask a question?

I find it very easy to interpret Dr. Penner's statements because he said in his opening remarks that he had not changed the traditional mission of CBO, which was not to pass judgment on the propriety of proposals. CBO gives us an objective analysis, and it is sort of, "These are the facts, Senators, and if you want to choose, you can."

DEFINITION OF "WE COULD NOT SUPPORT"

You seem to be saying, when you make a statement, "A number of the proposals with the largest associated savings estimates were those we could not support."

What does that mean?

Mr. **Bowsher.** The statement means that we either have not done any work in the past that would support whether the recommendation is worthwhile, or that we are concerned that the recommended change will require a great deal of soul-searching and research by both the Executive Branch and the Congress before it could be acted upon. I will cite some examples as we move through the statement, Mr. Chairman.

Chairman **Domenici.** All right. So, in a sense, when you say "We support," you are not saying this is good policy for America——

Mr. **Bowsher.** No.

Chairman **Domenici** [continuing]. But rather, you have evaluated this at a previous time, and it makes some kind of sense within the prescription that was given to you.

Mr. **Bowsher.** That is correct, Mr. Chairman.

Chairman **Domenici.** And you will explain that a little bit as to major proposals?

Mr. **Bowsher.** That is correct.

Chairman **Domenici.** What I am getting at is that obviously, one could take a pension plan and say it should be cut in half, and if it were cut in half, the resultant savings would be "*x*" billions of dollars. You could look at that, and Dr. Penner could look at that, and I assume you would both report the same on that, that the numbers are correct; he would then say, "We have no opinion on support or nonsupport."

What would you say on something like that?

Mr. **Bowsher.** Well, we would not make any judgment on the numbers because, as you know, Mr. Chairman, that was the CBO part in this. What we would highlight is that the findings the Commission used to come to that recommendation, either were or were not consistent with our previous findings.

CONCERN ABOUT CHARACTERIZATION OF TOTAL REPORT

Chairman **Domenici.** I am sorry to interrupt. I have one more question.

Both of you seem to be somewhat concerned about the characterization of the total report in that you would say you hope it does not lose its effectiveness because people find that it is not waste, fraud, and abuse as much as it is change of policy.

Do we have some common definition that you and they would accept as to waste, fraud, and abuse, or are we all talking about different things? You see, I think maybe they would call something abuse, and maybe waste, that which is policy, because they may think a policy that is not consistent with their idea of good business might be a wasteful policy. Yet, we got stuck with the notion of waste, fraud, and abuse—and maybe it is right—that it literally meant abuse of a program in existence, or waste within the confines of a program as defined by Congress, or abuse which was almost cheating.

Could you talk about that just for a moment, to see if we understand?

Dr. Penner. I think, sir, there is obviously a lot of ambiguity about where you draw the line. In the way we draw the line, we would characterize about 40 percent of the 396 proposals that we looked at as policy changes. It is very important, however, to note that that 40 percent of the recommendations accounted for 60 percent of the potential 3-year savings estimate and 80 percent of the estimate for the 5-year period.

Now, one way of trying to decide on the difference is to suggest that policy propsals would definitely require legislation whereas others would not, but even that is somewhat ambiguous, as you know.

Mr. Bowsher. Our view is very close to the latter point that Dr. Penner made. In other words, we thought if the recommendation needed legislative action it probably was a policy issue, and that is how we characterized it.

Chairman Domenici. All right. It seems to me, then, that if the result of all of this is an effort to better understand what we are doing with the taxpayers' money, I do not know that the American people would be too concerned about preconceived ideas. I think they would be concerned about the relative merit, in the sense of a policy change or a nonchange, of something that is good government, something government ought to be doing or ought not be doing. But we will ask Mr. Grace to make sure he defines that for us. I hope that does not detract from your study, because it is not easy—as you indicated, you have got to do something for most of these, and if they thought it was just putting a few administrators around to tighten up on a program, clearly, both of you found that is not the way we are going to get these savings.

Dr. Penner. That is correct.

Mr. Bowsher. That is right.

Chairman Domenici. Excuse me for interrupting.

Mr. Bowsher. Thank you, Mr. Chairman.

Of the recommendations we examined, we found that about one-half could be accomplished by executive branch action, with the remainder requiring congressional action. In this regard, we agree with the Commission's assessment of implementation authority in all but about 10 percent of the cases.

BROAD AREAS OF RECOMMENDATIONS

To faciliate consideration of the 400 individual recommendations, GAO and CBO grouped them into 90 sets of related proposals and then grouped those proposals into the five broad areas of national defense, entitlements, nondefense discretionary programs, Federal civilian employment and compensation, and revenue-enhancing measures.

NATIONAL DEFENSE

First, I would like to talk about the area of national defense. In that area, GAO examined 21 sets of proposals. We identified 8 proposals that we could generally support on their merits; 7 proposals which we could not support, and 6 others where we had to qualify our support or had no strong opinion.

CBO was able to estimate savings for only one of the 8 proposals we could support, dealing with the recovery of the medical care costs from private health insurers. CBO estimated a savings potential for this proposal to be about $700 million over 3 years.

Improved weapons system acquisition was one of the Commission's major thrusts in the defense area. We agreed that improved weapons systems procurement practices would result in savings, and just as importantly, in better-quality weapons systems. GAO has performed considerable work on the effectiveness of the weapons system acquisition process. GAO reports have emphasized areas where the Commission also found problems, particularly in the need to affirm requirements to reduce costs and to improve the program management and improve disclosure to Congress. We also agree that inefficient weapon production rates result in higher unit costs, reduce DOD's purchasing power, and result in program instability. It is not practical, however, to produce all weapon systems at the most economical production rate because of the many competing requirements for defense dollars. We believe that for each weapon system, it is important to establish the various levels at which economies can be achieved so that congressional and DOD decisionmakers are aware of the economic impacts when they alter program funding.

We are concerned about a number of the Commission's defense proposals. For example, the Commission recommended that biennial budgeting be instituted for major weapon systems procurement. We support efforts to alleviate problems of planning and budgeting for major weapons systems, which the Commission believes biennial budgeting will accomplish. We believe, however, that the results of adopting biennial budgeting without other needed improvements in the financial management structure of the Government as a whole might well prove to be disappointing.

We also have concern about the Commission's military retirement system's proposal. There is widespread agreement that the system is expensive. Beyond this, however, there is less agreement on whether the system benefits are too generous. Many of the Commission's proposals to revise military retirement pay are new and go far beyond the scope of previous recommendations to reform retirement pay. Our basic concern is that the proposals focus exclusively on one element of the total life-cycle cost of military manpower, namely, retirement pay. The Commission did not estimate the specific manpower force profile changes that would result from its recommendations and whether these profile changes would adversely affect our military effectiveness, or whether offsetting costs would be incurred to maintain a militarily effective force profile.

Looking at the retirement system in isolation and making cost reduction recommendations without knowing what effect such changes will have on the force profile and life-cycle manpower costs could result in a less-effective and a more costly military force, even though the retirement account may be less.

ENTITLEMENTS

A second area I would like to talk about, Mr. Chairman, is entitlements. In this area, almost all of the cost-saving potentials identified by the Commission involve policy initiatives designed to reduce benefits to individuals or businesses and to redefine the Federal role in health care. While we agree with some of the Commission's proposals, we have reservations about some of those which it said would result in a the largest savings. Specifically, of the 16 sets of proposals in the entitlement area, we generally agree with 10, generally disagree with 4, and had to qualify our support or had no strong opinion on 2. For those 10 proposals that we could support, CBO estimated potential savings totaling about $6 billion.

The most significant savings estimated proposed by the Commission in the entitlements area involve limiting the growth in Federal health care costs to the growth in the gross national product—a fundamental change in the Federal role in health care. The Commission estimated this proposal would save almost $29 billion over 3 years. In GAO's opinion, it is not appropriate to implement the Commission's propsal without more study because: one, limiting Federal health care costs to the growth in the GNP would require dramatic changes in the way medical care is provided; two, the level of health care provided to most people would have to be lowered, or beneficiaries would have to pay more for their health care, and three, the ability of at least some medicare and medicaid beneficiaries to pay the additional cost is questionable.

NONDEFENSE DISCRETIONARY PROGRAMS

The third area I would like to talk about is nondefense discretionary programs. Proposals in this area include cash management, debt collection, housing, energy and others. We found 20 of the 30 sets of proposals generally to have merit. We generally disagreed with only two proposals, and had to qualify our support or had no basis for opinion on eight others.

For the 20 proposals we found to have overall merit, CBO's estimated savings totaled about $10 billion.

In the fourth area, involving Federal civilian employment and compensation, we addressed 12 sets of proposals. We generally agreed with five, disagreed with three, and either qualified our support or had no strong opinion on four.

Chairman Domenici. Would you back up for a minute? The statement, "For the 20 proposals we found to have overall merit, CBO's estimated savings totaled nearly $10 billion," over what period?

Mr. Bowsher. Three years.

Chairman Domenici. All right. Thank you.

Go ahead. I am sorry.

FEDERAL CIVILIAN EMPLOYMENT AND COMPENSATION

Mr. Bowsher. The largest Commission savings in this area involved a proposal to reduce civil service retirement benefits, estimated by the Commission to save $30 billion over 3 years. The Commission proposed sweeping changes in the system based on its view that prevailing retirement benefits in the private sector are much less liberal. In the Commission's view, the civil service system is three times more costly and generous than the best private sector plan.

We cannot agree with the Commission's conclusions nor endorse its recommendations as being representative of the private sector practices.

A major shortcoming in the Commission's analysis was that it limited its benefit comparison to pension plans and social security. It did not consider the capital accumulation plans that many private employers sponsor to provide additional retirement income to their employees. Some of the proposals would deserve consideration if the Federal retirement package were reconstructed to include all three elements of retirement income available in the private sector; but the Commission did not recommend that this be done.

In addition to its proposals to change the retirement system's benefit structure, the Commission recommended that the system's accounting practices be changed to achieve better recognition of accruing costs. We endorse this recommendation. It is consistent with our long-held position that current practices cause accruing costs to be understated.

REVENUE-ENHANCING MEASURES

Finally, I would like to briefly address the Commission's proposals in the area of revenue enhancement.

In this area, we either qualify our support or have no basis for an opinion on 7 of the 11 proposals. We generally agree with two proposals and generally disagree with the remaining two. CBO's saving estimate for the two proposals we support totals about $500 million.

Chairman **DOMENICI**. Mr. Bowsher, let me back up for a minute. Dr. Penner indicated that it was difficult to pass judgment on the savings attributable to changing the pay for Federal employees, and I believe he said on the one hand, to get to comparability, there would be a significant increase before anything else was applied to reduce it, and it may be a wash, or it might even be more expensive than it is now, said he.

Do you agree that——

Mr. **BOWSHER**. If you went to comparability, I agree.

GRACE COMMISSION RECOMMENDED COMPUTING COMPARABILITY DIFFERENTLY

Chairman **DOMENICI**. Did the Grace Commission address comparability at all? I understood from his report that it did.

Dr. **PENNER**. Yes, sir. I think the point is that the Commission recommended computing comparability differently, so that the comparability level would be lowered. But because the pay raise for civilian employees has been limited over the last few years, their pay is now below the level that the Grace Commission recommended for comparability.

Chairman **DOMENICI**. I see. So even with a dispute, the position of some Federal representation that they are not at comparability is true, even under their definition of a lower comparability standard; is that right?

Dr. **Penner**. That is right.

Mr. **Bowsher**. Yes, and we agree with that.

Chairman **Domenici**. You agree with that. Does that have any effect on the pension proposal?

Mr. **Bowsher**. Well, I think you have to look at the total compensation package—the same concern we have on the military side, we have on the civilian side. And I think one of the problems you have in the Government was that from the early seventies into the early eighties, there was a pay cap on the top people in Government and big COLA adjustments because of inflation to retirees who were not capped. And therefore employees had to get out of Government and retire at 55. With the COLA adjustments they practically made as much money as the person who was sitting in the chair, working in the Government.

With lower inflation and with the pay cap off, as the Grace Commission recommends, then there will be a situation where the senior executives will not automatically go out on retirement.

We just completed an analysis of somebody who would retire right now and go out for the next 3 years. That person is going to earn a little over $120–$130,000 if he retires, and a little over $200,000 if he stays in and does his job for the next 3 years.

So we had a situation for 10 years where it was becoming more lucrative to retire than stay on the job. This was brought about by the fact that we had a pay cap that was wrong, and COLA adjustments that we really could not afford. I don't think this factor was examined by the Grace Commission very carefully, I think if we can put a decent cap on the COLA and pay our people properly, there won't be as many people going out prior to 62 years old. In this connection, our analysis have shown that the average retirement age of the people in Government is 61. But there is no question, in that one decade, many senior executives retired at relatively early ages because it made sense. They could not get a pay increase if they stayed on the job, but they could get big adjustments in their pension if they retired.

Chairman **Domenici**. I wonder, however, if your notion about the COLA adjustments is as significant if inflation stays where it is and if the CPI stays where it is?

Mr. **Bowsher**. If the COLA adjustment stays down, retirement will be a lot less attractive.

Chairman **Domenici**. I understand, but you do not have to make an adjustment in it if it stays down.

Mr. **Bowsher**. Well, that is a possibility; that is right.

SAVE WITH CHANGE IN THE COLA

Chairman **Domenici**. You know they talk about how much we would save if we change the COLA on social security—I asked that—if it was Consumer Price Index minus 2 or 3 years, Lawton, I think I got a number of $4 billion, or $4.2 billion. That is 1 year, $4.2 billion. We used to talk about saving $30 or $40 billion. Over 3 years, it would be $18 to $20 billion.

All right.

Mr. **Bowsher**. Mr. Chairman, if we can have lower inflation rates, and we can have a reasonable approach to COLA, we can save billions in the budget arena in future years, because that is one of the areas that got out of control in the last decade.

Chairman DOMENICI. All right. You were on revenue enhancements, and then I think you have a conclusion.

Go ahead.

Mr. BOWSHER. One of the proposals in the revenue enhancements with which we disagree is taxing the means-tested benefits, which represent $59 billion of the total $76 billion in revenue enhancements estimated by the Commission. The Commission indicated that its proposals are necessary because many Federal subsidized programs, especially means-tested programs, have not been effective in reducing the poverty gap, and they serve individuals who have incomes above the poverty level.

However, we believe that the means-tested programs included by the Commission were not primarily intended to reduce the poverty level, and we question whether they should be included. For example, Medicaid is designed to meet health needs for people without sufficient resources or income to pay for medical health services. In addition, the Medicaid payment goes to the provider and not to the beneficiary. Notwithstanding the merits, implementation of the Commission's proposal in this area would be difficult, because many means-tested programs are jointly administered by the Federal Government and the States.

The Commission also did not resolve the problem of how to determine the cash value to a beneficiary of an inkind benefit, such as medical services under medicaid, which would be essential for the purpose of taxation.

On the other hand, we generally support the Commission's proposal to improve Federal administration of tax laws by increasing the number of IRS staff auditing tax returns.

In summary, Mr. Chairman, based on our assessment of 90 Commission proposals, we are able to endorse 45, or half, on the basis of their conceptual merits. The Commission's estimated savings for these proposals totaled $128 billion over a 3-year period. CBO was able to develop 3-year budget impact estimates for 32 of these proposals totaling $17 billion. The other 13 proposals with which we agree were valued at $53 billion by the Commission, but neither CBO nor we could develop a budget reduction estimate.

Now, additional savings may be possible by adopting some or all of the 27 Commission proposals for which we had to qualify our support or had no basis to offer an opinion. The Commission's estimated savings for these proposals total $126 billion.

In closing, I believe that congressional administrative action is necessary to reduce the Federal deficit, and the Commission's report serves a useful purpose in focusing attention and stimulating necessary debate on some of the possible actions. GAO is prepared to assist the cognizant congressional committees in analyzing further any of the Commission's recommendations not covered by this CBO/GAO report.

At this time, Mr. Chairman, I would be happy to answer any questions.

Chairman DOMENICI. Thank you.

[The prepared statement of Mr. Bowsher follows:]

STATEMENT OF
CHARLES A. BOWSHER
COMPTROLLER GENERAL OF THE UNITED STATES

Mr. Chairman and Members of the Committee:

I am pleased to join with CBO today in presenting the results of our respective analyses of the major proposals of the President's Private Sector Survey on Cost Control--commonly known as the Grace Commission. At the outset, I would like to comment that the Commission's charter to identify excessive federal expenditures and improve federal government management closely parallels our own. We share the Commission's concern over extraordinary budget deficits and the need to shrink them to manageable proportions.

Recognizing the importance of the mission, GAO cooperated with the Commission's 36 task forces in their efforts to identify areas of savings potential. We provided hundreds of GAO reports and made our staff available for further information as needed. While GAO had no role in developing the Commission's findings, conclusions, or recommendations, many of its proposals are consistent with those we have made in the past.

The 48 separate Commission reports contain many management improvement recommendations and many that require policy and program changes. These latter recommendations will undoubtedly be the focus of considerable congressional debate. We hope our assessments will prove useful.

SCOPE OF GAO/CBO PROJECT

On November 7, 1983, your Committee requested CBO and GAO to analyze the Grace Commission recommendations and related budgetary savings estimates. To be of value to your budget deliberations, the analysis was to be completed by February 15, later extended until today. Within the short time available, we could not analyze all of the Commission's recommendations. Therefore, we limited our analysis to those proposals having major savings potential--essentially those the Commission said could be expected to save $1 billion or more over 3 years. While this scope dealt with only about 400 of some 2,500 recommendations, it captured about 90 percent of savings potential estimated by the Commission.

In conducting our work, we focused on the merits of the Commission's proposals. We also assessed whether legislative or executive action would be needed to implement the proposals, and the reasonableness of the Commission's savings estimates, where prior work permitted.

RESULTS OF OUR ANALYSIS

Before presenting the details of our analysis let me underline two fundamental concerns we have about the results of the Grace Commission's work. First, we share CBO's finding that many of the Commission's savings estimates are considerably higher than can reasonably be expected. Our fear is that action on many worthwhile Commission recommendations will be jeopardized by widespread recognition that the associated savings estimates are significantly overstated.

Second, we are concerned that the Commission, in its final report and elsewhere, characterized its proposals as actions needed to reduce waste, abuse, and inefficiency in the federal government, when much of its work and identified savings potential more precisely concern policy and legislative readjustments. A number of the proposals with the largest savings estimates involve such policy issues as taxing federal subsidies, revising military retirement pay and extending the retirement age for federal civilian personnel. It is our hope that the Commission's efforts to promote its work will not be counter-productive and detract from the cost cutting and management improvement proposals presented.

These concerns notwithstanding, we found a good deal to agree with in the 400 Commission recommendations we examined. In fact, we found that nearly two-thirds of the individual recommendations have overall merit. For about one-third of the recommendations we examined, GAO had made a related recommendation in the past.

It is important to note, however, that our general agreement with about two-thirds of the individual recommendations does not translate into agreement with a proportionate amount of the estimated savings. A number of the proposals with the largest associated savings estimates were those we could not support. I will cite examples later in my statement.

Of the recommendations we examined, we found that about one half could be accomplished by executive branch action with the remainder requiring congressional action. In this regard, we agreed with the Commission's assessments of implementation authority in all but about ten percent of the cases. Areas where we disagreed were about evenly split between cases where the Commission said congressional action was required while we believed only executive action was required and vice versa.

To facilitate consideration of the 400 individual recommendations, GAO and CBO grouped them into 90 sets of related proposals and then grouped those proposals into the 5 broad areas of national defense, entitlements, nondefense discretionary programs, federal civilian employment and compensation, and revenue enhancing measures.

DEFENSE

In the area of national defense, GAO examined 21 sets of proposals. We identified 8 proposals that we could generally support on their merit, 7 proposals which we could not support, and 6 others where we had to qualify our support or had no strong opinion. CBO was able to estimate savings for only 1 of the 8 proposals we could support, dealing with recovering medical care costs from private health insurers. CBO estimated the savings potential for this proposal to be about $700 million over 3 years.

Improved weapons system acquisition was one of the Commission's major thrusts in the defense area. We agree that improved weapons system procurement practices would result in savings, and just as importantly, in better quality weapon systems. GAO has performed considerable work on the effectiveness of the weapon system acquisition process. GAO reports have emphasized areas where the Commission also found problems, particularly in the need to affirm requirements, reduce cost, improve program management, and improve disclosure to Congress.

We also agree that inefficient weapon production rates result in higher unit costs, reduce DOD's purchasing power, and result in program instability. It is not practical, however, to produce all weapon systems at the most economical production rate because of many competing requirements for defense dollars. We believe that, for each weapon system, it is important to establish the various levels at which economies can be achieved so congressional and DOD decisionmakers are aware of the economic impacts when they alter program funding.

GAO further agrees with the Commission that commonality of subsystems, equipment, and parts hold the promise of reducing life cycle logistics costs and many maintenance problems which can impair military readiness. Standardization of equipment, however, is not a panacea and each case needs to be considered on its own merits. Generally, GAO has found over the last decade that DOD could and should increase its efforts to improve commonality of equipment, parts, and subsystems.

We are concerned about a number of the Commission's defense proposals. For example, the Commission recommended that biennial budgeting be instituted for major weapons systems procurement. We support efforts to alleviate problems of planning and budgeting for major weapons systems, which the Commission believes biennial budgeting will accomplish. We believe, however, that the results of adopting biennial budgeting without other needed improvements in the financial management structure of the government as a whole would be disappointing.

We also have concern over the Commission's military retirement system proposals. There is widespread agreement that the system is expensive. Beyond this, however, there is less agreement on whether the system benefits are too generous. Many of the Commission's proposals to revise military retirement pay are new and go far beyond the scope of previous recommendations to reform retirement pay. Our basic concern is that the proposals focus exclusively on one element of the total life cycle cost of military manpower, i.e., retirement pay. The Commission did not estimate the specific manpower force profile changes that would result from its recommendations, whether these profile changes would adversely affect military effectiveness, or whether offsetting costs would be incurred to maintain a militarily effective force profile. Looking at the retirement system in isolation, and making cost reduction recommendations without knowing what effect such changes will have on the force profile and life cycle manpower costs, could result in a less effective and/or a more costly military force, even though the retirement account may be less.

ENTITLEMENTS

In the entitlements area, almost all of the cost saving potential identified by the Commission involves policy initiatives designed to reduce benefits to individuals or businesses, and to redefine the federal role in health care. While we agree with some of the Commission's proposals, we have reservations about some of those which it said would result in the largest savings.

Specifically, of the 16 sets of proposals in the entitlements area, we generally agreed with 10, generally disagreed with 4, and had to qualify our support or had no strong views on 2. For those 10 proposals that we could support, CBO estimated potential savings totalling about $6 billion.

The most significant savings estimate proposed by the Commission in the entitlements area involved limiting the growth in federal health care costs to the growth in the gross national product (GNP)--a fundamental change in the federal role in health care. The Commission estimated this proposal would save almost $29 billion in savings over 3 years. In GAO's opinion, it is not appropriate to implement the Commission's proposals at this time because (1) limiting federal health care cost to the growth in the GNP could require dramatic changes in the way medical care is provided, (2) the level of health care provided to most people would have to be lowered or beneficiaries would have to pay more for their health care, and (3) the ability of at least some Medicare and most Medicaid beneficiaries to pay the additional cost is questionable.

We also have concerns regarding the merits of the Commission's proposal to change the appeals process for persons denied social security disability benefits. The Commission proposes that the initial disability examiner review new evidence and make reconsideration decisions. Administrative law judge decisions would be based on the evidence presented at the initial and reconsideration hearings, without the claimant having an opportunity to appear before the administrative law judge. The Commission assumes that the change would restrict the number of people getting on the disability rolls and thus result in savings. We believe that this approach represents a fundamental departure from longstanding agency practices as well as Administrative Procedures Act requirements. Administrative law judges now have the right to review new evidence and to have the claimant appear before them. Savings alone are not sufficient reason, in our opinion, to change that process.

NONDEFENSE DISCRETIONARY

We also addressed a wide variety of proposals in the broad area of nondefense discretionary spending and offsetting receipts. Proposals in this area include cash management, debt collection, housing, energy, and others. We found 20 of the 30 sets of proposals generally to have merit, generally disagreed with only 2 proposals, and had to qualify our support or had no basis for an opinion on the 8 others. For the 20 proposals we found to have overall merit, CBO's estimated savings potential totalled nearly $10 billion.

The Commission made numerous recommendations for federal agencies to develop and use good management practices in collecting debts owed the government, and we have long endorsed stronger federal management in this area. However, some of the Commission's recommendations are for actions already in progress and already addressed by the enactment of the Debt Collection Act of 1982. Nonetheless, we agree that savings opportunities still exist.

One opportunity involves offsetting delinquent debts against federal tax refunds due debtors. We have supported the use of IRS offset, and the Commission acknowledged that the use of IRS offset is a viable means of collecting debts owed the government. Our support of the IRS offset, however, should not be interpreted as a recommendation that IRS become a debt collection "clearinghouse." Debt collection is primarily the responsibility of each federal agency.

One area where we can only partially support the Commission's positions concerns the federal power marketing administrations. The Commission proposes reducing the costs associated with the power marketing administrations by (1) requiring them to repay federal investments on a timely basis and at market interest rates; (2) charging a user fee for water used to produce electricity; and (3) eventually selling the PMAs to nonfederal entities. While we have strongly supported the first recommendation over the last several years, we have reservations about the second because of recent changes that have significantly increased the power marketing administrations' power rates.

With respect to selling the PMAs to nonfederal entities, we note that the Commission based its analysis only on electricity production and did not address the actions needed to assure that other purposes of these facilities, such as irrigation, navigation, flood control and fish and wildlife protection will continue to be met. We also note that federally generated power, sold in 38 states, is generally lower in cost than other alternatives and changing the preference rights to this power of public bodies and electric cooperatives would represent a significant policy change.

FEDERAL CIVILIAN EMPLOYMENT

In the area of federal civilian employment and compensation, we addressed 12 sets of proposals. We generally agreed with 5, disagreed with 3, and either qualify our support or had no strong views on 4. CBO estimated that over the next 3 years implementing the 5 proposals we generally supported would cost the government about $400 million.

The largest Commission savings estimate involves a proposal to reduce civil service retirement benefits--estimated by the Commission to save $30 billion over 3 years. The Commission proposed sweeping changes in the system based on its view that prevailing retirement benefits in the private sector are much less liberal. In the Commission's view, the civil service system is three times more costly and generous than the best private sector plans.

We cannot agree with the Commission's conclusions nor endorse its recommendations as being representative of private sector practices. In our opinion, adopting the Commission's proposals could result in lower benefits for federal employees than those received by their private sector counterparts. Moreover, some of the proposals would reduce the amounts now being paid to retirees and the benefits that active employees have already earned. We question the equity of such retroactive cuts and believe they could be subject to question in the courts.

A major shortcoming in the Commission's analysis was that it limited its benefit comparison to pension plans and social security. It did not consider the capital accumulation plans that many private employers sponsor to provide additional retirement income to their employees. Some of the proposals would deserve consideration if the federal retirement package were reconstructed to include all three elements of retirement income available in the private sector, but the Commission did not recommend that this be done.

In addition to its proposals to change the retirement system's benefit structure, the Commission recommended that the system's accounting practices be changed to achieve better recognition of accruing costs. We endorse this recommendation. It is consistent with our long-held position that current practices cause accruing costs to be understated.

REVENUE ENHANCEMENTS

Finally, I would like to briefly address the Commission's proposals in the area of revenue enhancement.

In this area we either qualify our support or have no basis for an opinion on 7 of the 11 proposals. We generally agreed with 2 proposals and generally disagreed with the remaining 2. CBO's savings estimate for the 2 proposals we supported totalled about $500 million.

One of the proposals with which we disagree--taxing means-tested benefits--represents $59 of the total $76 billion in revenue enhancements estimated by the Commission. The Commission indicated that its proposal was necessary because many federally subsidized programs, especially means-tested programs, have not been effective in reducing the poverty gap and they serve individuals who have incomes above the poverty level. However, we believe that the means-tested programs included by the Commission were not primarily intended to reduce the poverty level and we question whether they should be included. For example--Medicaid--is designed to meet health needs for people without sufficient resources or income to pay for medical health services. In addition, the Medicaid payment goes to the provider, not to the beneficiary.

Notwithstanding the merits, implementation of the Commission's proposal in this area would be difficult because many means-tested programs are jointly administered by the federal government and the states. The Commission also did not resolve the problem of how to determine the cash value to a beneficiary of an in-kind benefit, such as medical services under Medicaid, which would be essential for the purpose of taxation. For these reasons, we believe it may be inappropriate to consider that the government could achieve any dollar savings in this area when drafting legislation.

On the other hand, we generally support the Commission's proposal to improve federal administration of our tax laws by increasing the number of IRS staff auditing tax returns.

CONCLUSION

In summary, Mr. Chairman, based on our assessment of 90 Commission proposals, we are able to endorse 45, or half, on the basis of their conceptual merit. The Commission's estimated savings for these proposals totalled $128 billion over a 3-year period. CBO was able to develop 3-year budget impact estimates for 32 of these proposals totalling $17 billion. The other 13 proposals with which we agree, were valued at $53 billion by the Commission, but neither CBO nor GAO could develop a budget reduction estimate.

Additional savings may be possible by adopting some or all of the 27 Commission proposals for which we had to qualify our support or had no basis to offer an opinion. The Commission's estimated savings for these proposals totalled $126 billion.

In closing, I believe congressional and administrative action is necessary to reduce the federal deficit and the Commission's report serves a useful purpose in focusing attention and stimulating necessary debate on some of the possible actions. GAO is prepared to assist the cognizant congressional committees in analyzing further any of the Commission's recommendations not covered by the CBO/GAO report. I would be happy to respond to questions at this time.

Chairman **DOMENICI**. I am just going to ask a couple of questions and then go to Senator Chiles. Then we will go to the 5-minute rule for the Senators, but I do not want to keep you from asking more questions, unless other Senators come and we do not have time.

NO BUDGET REDUCTION ESTIMATE BY CBO OR GAO

On page 13 of your testimony, Mr. Bowsher, you say, "The other 13 proposals with which we agree we valued at $53 billion by the Commission, but neither CBO nor GAO could develop a budget reduction estimate." That is after you state that you could find $17 billion. Why couldn't you come up with a reduction estimate on those other 13 that were valued at $53 billion?

Mr. **BOWSHER**. We relied upon CBO to come up with the estimate.

Chairman **DOMENICI**. All right.

Why couldn't you, Dr. Penner?

Dr. **PENNER**. There were different reasons in different cases, sir. In a large number of cases, the recommendations were really quite vague; in others, just by their nature, it would be extremely difficult to know how much you saved. For example, in the Defense Department, a recommendation is to increase multiyear procurement. Well, that has been studied for individual weapons systems to some degree, but not very much. And since it would save different amounts for different weapons systems, we had no basis for adding them up. Another recommendation is to close obsolete bases in the United States. But unless you know precisely what bases are defined that way and what bases will be closed, you really have no basis for judging exactly how much money that would save.

BIENNIAL BUDGETING SHOULD NOT BE AUTOMATIC

Chairman DOMENICI. I believe it was Mr. Bowsher who said that the Grace Commission's recommendation that we go to a two-year budget 2-year appropriations for military weapons procurement—I do not have the page—but I think you said that alone might not be very effective.

What do you mean?

Mr. BOWSHER. Well, I mean that many people in the Congress today are concerned about the congressional budget process and some of the problems associated with getting the budget approved in a timely manner. And we have been asked to look at the biennial budgeting, which is what some people think we ought to move to. My only concern is that if biennial budgeting is implemented by itself, without looking at the rest of the financial management system of the Federal Government, we could end up as disappointed with that move as we were when we changed the fiscal year end date from June 30 to September 30. If you remember, everybody said we would never have another continuing resolution once we made that change.

I think the biennial budgeting might make sense for some programs and some appropriations, and I think it should be looked at as part of the overall review of the financial management system. But I would certainly do it as part of that review and not just automatically go to it or automatically adopt it for these appropriations.

Chairman DOMENICI. Senator Chiles.

MANY RECOMMENDATIONS ARE TRULY RADICAL PROPOSALS

Senator CHILES. Dr. Penner, in your report, you state that many of the proposals would require action by Congress, many more would require action by Congress to be implemented than the Grace Commission estimate. "Many of the recommendations would require major policy change, or are very controversial in nature. Some proposals have already been rejected by either Congress or the administration in the past. Yet $98 billion in deficit reduction over the next 3 fiscal years is certainly worth paying attention to."

Could you tell us, based on these $98 billion in savings recommendations, which are truly in the realm of what Congress can do, and which are in the realm of what the Administration can do?

Dr. PENNER. In terms of specific things that the Congress could do, as I said, a lot of them are truly radical proposals. Certainly, the medicare/medicaid proposal would involve fundamental reform of those programs. That would involve value judgments, and clearly, a big legislative effort would be required to get that done.

Similarly, many of the suggestions made in the retirement and pay area are far more fundamental than the kind of options, that the Congress has been considering in recent years.

In terms of specific administrative proposals, do you want to handle that, Mr. Bowsher?

Mr. Bowsher. Concerning administrative proposals, in the national defense area there are certain improvements that we have identified over the years that have savings potential. I would like to list four or five of them for you, if I could, Senator.

One concerns maintenance depot consolidation. We have been encouraging that for a long time. The Grace Commission estimated $589 million could be saved through such consolidation. The CBO could not validate that estimate but we think there probably is some gold to be mined, in this area and we think it should be pursued.

The same is true for consolidating base support activities and military commissaries. Here too we think there can be some consolidation or closures.

Greater use of common parts is another area where the Grace Commission estimated potential savings of $7.3 billion. I do not know whether it can be $7.3 billion amd I can certainly understand why the CBO people had a hard time preparing a savings estimate. But I do think this is an area that if pursued could generate savings. The same is true with the overall recommendation of improving the procurement process management. We have issued reports on that several times and made a number of related recommendations.

SCORESHEET ON RECOMMENDATIONS WOULD BE HELPFUL

Senator Chiles. We need to establish a scoresheet to show which recommendations require Congressional action, and which recommendations can be implemented by the administration. Then we can start having Congress address those issues and make a decision. Then we can see whether the administration is addressing those issues.

Mr. Bowsher. Yes, Senator, we have that all set up in a computer run now, which we can provide for the record.

Senator Chiles. Great.

[The following was subsequently supplied for the record:]

PROPOSALS SUPPORTED BY GAO BY IMPLEMENTATION AUTHORITY

Proposal a/	Implementation Action	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)	CBO 5-year Savings Estimate ($ billions)
National Defense				
Consolidate or Close Bases and/or Base Activities (OSD-4, 8, 9)	Administrative	4.3	b/	b/
Increase Use of Common Parts and Standards (OSD-20)	Administrative	7.3	b/	b/
Change Physical Inventory Management (Proc-10, 12)	Administrative	4.5	b/	b/
Improve Procurement Process Management (Proc-6, 7, 8, 9)	Administrative	7.8	b/	b/
Revise DOD Financial Reporting and Control (USAF-1)	Administrative	1.2	b/	b/
Improve Army Weapons System Acquisition (Army-10)	Congressional	2.6	b/	b/
Improve DOD R&D Strategic Planning & Management (R&D-1, 2)	Congressional	6.1	b/	b/
Recover Medical Care Costs from Private Health Insurers (Hosp-11)	Congressional	1.2	.7	1.3

a/Grace Commission issue codes are provided in parentheses.

b/CBO was not able to make a savings estimate for this proposal.

	Implementation Action	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)	CBO 5-year Savings Estimate ($ billions)
Entitlements				
Refine VA Response to Guaranteed Loan Foreclosures (Vets-4)	Administrative	.2	.3	.4
Coordinate and Automate State Welfare Data (LISAB-5)	Administrative	1.4	.0	.1
Improve Enforcement of Social Security Earnings Limit (SSA-6)	Administrative	4.0	.0	.0
Reduce Food Stamp-Child Nutrition Overlap (AG-13)	Congressional	1.7	1.5	2.7
Reduce Errors in VA Claims Process (Vets-2)	Congressional	1.5	b/	b/
Require Prospective Payment Systems for Medicaid (LISAB-8)	Congressional	1.0	.1	.1
Institute Risk Related Premiums for PBGC (Bank-1, 2, 3, 4, 5)	Congressional	3.7	2.3	4.1
Improve Income Verification in Means-Tested Programs (LISAB-4)	Congressional	2.3	.7	1.6
Require Multiple Dispensing of GSL Student Loans (Educ-1-2)	Congressional	1.0	.2	.4
Eliminate Federal Subsidy for Railroad Windfall Benefits (Bank-12)	Congressional	1.2	1.0	1.6

Nondefense Discretionary	Implementation Action	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)	CBO 5-year Savings Estimate ($ billions)
Reduce Size of Government Vehicle Fleets (Priv-7)	Administrative	1.5	.3	.4
Update Computer Hardware & Improve Software Resources Mgmt. (ADP-4)	Administrative	4.0	b/	b/
Increase Use of Performance Specifications for Construction Projects (Const-18)	Administrative	1.3	b/	b/
Improve Resource Allocation in VA Hospitals (Hosp-4)	Congressional	4.9	b/	b/
Repeal/Modify Walsh-Healy Public Contract Act (USAF-17, Labor-13, Wage-2)	Congressional	3.4	.8/	1.9
Provide Incentives for Electronic Funds Transfer (Asset-6)	Congressional	.6	1.2	1.2
Make Timely Payments for Procurement & Grants (Asset-4)	Congressional	2.6	.0	.0
Improve Verification of Eligibility for Housing Subsidies (HUD-5)	Congressional	1.9	.0	.0
Improve Credit Processing & Debt Collection Mgmt. (Asset-12, 26)	Congressional	2.2	b/	b/
Repeal/Modify Davis Bacon Act (USAF-15, Labor-12, Wage-1)	Congressional	5.0	1.5	3.2
Improve Research and Development Management (R&D- 1, 2)	Congressional	4.9	b/	b/

	Implementation Action	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)	CBO 5-year Savings Estimate ($ billions)
Charge Interest & Penalties on Delinquent Debt (Asset-29)	Congressional	1.1	.0	.0
Repeal/Modify Service Contract Act (USAF-14, Labor-14, Wage-3)	Congressional	3.3	.1	.2
Increase Use of Outside Debt Collection Efforts (Asset-28)	Congressional	.3	.0	.0
Consolidate Student Loan Programs (Educ-1-1)	Congressional	.2	1.2	2.0
Use IRS Refund Offset to Collect Delinquent Debt (Asset-27)	Congressional	.4	.9	2.4
Improve Strategic Petroleum Reserve Procurement Policies (Energy-7)	Congressional	1.3	.2	.3
Charge Fees for Direct Lending, Servicing & Delinquencies (Asset-11)	Congressional	2.9	.5	.9
Impose User Fees for Certain Coast Guard Services (Trans-19, PRIV-8, USER-16)	Congressional	1.6	2.2	3.8
Expand & Improve VA & Medical Care Cost Recovery (Hosp-12, 13)	Congressional	2.6	.8	1.5
Federal Civilian Employment and Compensation				
Make In-House Property Maintenance More Productive (Prop-6)	Administrative	1.1	.0	.3
Improve Social Security Management Techniques (SSA-4)	Administrative	1.3	.1	.3
Improve Federal Productivity/Office Automation (ADP-6, Per-16)	Administrative	17.1	.5	3.1

	Implementation Action	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)	CBO 5-year Savings Estimate ($ billions)
Reform Pay Comparability Process for White-Collar Employees (Per-6)	Congressional	4.1	.0	-.1
Reform Pay Comparability for Blue-Collar Employees (Per-7)	Congressional	1.8	-.9	-1.7
Revenues				
Increase Railroad Retirement Tier 2 Taxes (Bank-11-1)	Congressional	1.4	.0	.0
Adjust Federal Highway Taxes for Inflation (USER-21)	Congressional	2.0	.5	2.4

Mr. Bowsher. And I think you will see there the Grace Commission's estimate, then CBO—there were just some areas where CBO could not validate, and we certainly understand why they could not. But we think that the effort should be made.

Now, whether the Defense Department or someone will be able to come up with the accounting, to tell you how much they saved because of that initiative, I am not quite sure.

Senator Chiles. Mr. Chairman, I would think it would be beneficial if we not only got that computer list, but if we develop a periodic report. One of the things that the GAO was helpful with was the old Procurement Commission reports in which they periodically provided a scoresheet of where we had gone. I think that helped motivate Congress and the administrations to move forward, because the number one recommendation was the Office of Federal Procurement Policy. We finally were able to create that, and we were able to make some strides on paperwork and procurement. So it seems to me like some kind of a scoring, a periodic review or report, would be very helpful here.

Chairman Domenici. Before we try to verbalize that now, Senator Chiles, let us leave it such that we will think about it from the standpoint of how we might attempt to implement some kind of an ongoing evaluation.

Dr. Penner. If I may interject, Senator, for each of the issues actually written up in this book, there is an implementation section, which gives you our judgment as to whether it needs legislation, regulation, or some other action.

Chairman Domenici. I thought, Senator, when you started talking about defense a little bit that you might have asked this one question, so can I ask it in your stead?

Senator Chiles. Sure.

TREMENDOUS DIVERGENCE EXISTS BETWEEN ESTIMATES

Chairman Domenici. I wish that it would not be this way, but I think it is. There is a tremendous divergence between the estimate that Mr. Grace gave the President in his final report on what we could save for national defense. He told the President in his written report the first year, $17.7 billion. I really do not care whether that is BA or outlays; it is a nice, round number. I have been saying $20 or $22 billion. But you tell us it is $1.7 billion. How is there such a wide divergence?

Dr. Penner. It stems from a great variety of sources. Again, there are some of the defense recommendations that we just simply could not cost out because of their vagueness. Let me emphasize that that in no way represents a policy judgment on them at all. As the Comptroller General said, we think a lot of them are probably good ideas, but we just did not feel confident in making any savings estimate for them.

A second very large part of the difference is the fact that in their way of accounting, they would put in some sort of accrual costs in the military retirement area. But that would not affect outlays for a very long period of time.

And then there are other areas where, for a great variety of reasons, we just come out with a lower estimate. But our numbers, as

I said, are calculated using our traditional methodology and are based on the baseline definitions.

Chairman DOMENICI. All right. I understand.

Senator Kasten?

OPPORTUNITY COULD BE MISSED

Senator KASTEN. Mr. Chairman, thank you.

I am hopeful that this whole set of hearings is not going to turn into kind of a circular argument. It seems to me that we have a group of people from the private sector who have spent a lot of time and effort and who have come up with some recommendations. Unfortunately, they were told exactly what that recommendation was going to say, and they did their best to try to estimate, without all the fancy computers and experts and other kinds of people that we have at our disposal and both of you have at yours, and they came up with numbers. Unfortunately, they called a lot of the changes waste, fraud, and abuse, that if we just get rid of waste, fraud, and abuse in the Federal Government, we are going to change our ways of doing business and save billions.

The Congress, then, reacted, particularly the bureaucracy reacted, saying, "Circle the wagons. They are out there again on 'waste, fraud, and abuse'," and so then, we start in on saying that it is not really waste, fraud, and abuse, but it is management changes to be discovered, or the other kinds of words that we use in the budget process.

But I am frustrated that we, in the process, could be missing the whole opportunity to take advantage of recommendations from a group of people outside of Government who have come to look in, and I think have probably come up with a number of key proposals if we just recognize them for what they are. They are not all waste, fraud, and abuse—and it is too bad that that is what they called them.

On the other hand, the idea of whether the specific dollar figure that they are applying is based on year 2001 and 2003, discounted back to 1983 or whatever is in one of the statements here, is not very important, either. The fact is, there are a bunch of these programs that we ought to get our hands on and that we ought to deal with, and we should not be picking about the numbers and picking about the methodology.

I am also frustrated that both of you, simply because you cannot validate or cost out, or whatever kind of bureaucratic language you want to pick up, a particular program ought not to mean that the program is bad. We ought to look at some of these things.

Now, Dr. Penner, just in the last part of your answer to Senator Domenici, you kind of picked up on that idea, recognizing, I think, that for the last 20 minutes, we have been way over here, acting as if we cannot validate it or as if we cannot cost it out, or we do not agree with their assumptions and all the other kinds of words, that sometimes, it is bad. It is good, but we are frustrated, because your way of looking at it might not be the same way as the Pentagon's way of looking at it, might not be the way the private sector looks at it. But the fact is, we ought to look at closing military bases in this country, and we could all nod "Yes" to that. Now, we could argue about how much that is going to save.

CBO AND GAO NOT OPPOSED TO CHANGE

Let me just make one more point, and I want both of you to respond to this, because I really do not think the spirit in which we have gone through the last 20 minutes is the spirit in which we in Government on the Budget Committee and you in your jobs, staffing the legislative branch, ought to be looking at these things. This is an opportunity, and we ought not to sit there and pick it out. We have got a chance here. And let's say we only save a dollar on one of these programs—at least we have done the right thing. Simply because you cannot validate or cost out a program, does not mean that you at CBO or GAO oppose looking at the change—is that correct?

Dr. **Penner**. That is correct.

Senator **Kasten**. Mr. Bowsher?

Mr. Bowsher. Yes. I would like to answer your question, Senator. We were asked by your committee to come up with the numbers and to validate the numbers and that is what we have done. But in no way have we attempted to act as an obstacle to the Commission. As I said in the opening part of my statement, we have fully cooperated with the Grace Commission. We have given them many GAO reports and have made our staff available for numerous interviews. We would like to continue with the people in the executive branch and in the Congress in any way we can to be helpful on these recommendations.

Our concern was just the one you articulated. I hope very much, as I said in my statement, that debate over the savings estimates does not hold up the progress that we have to make to reduce this deficit and implement some of the proposals made by the Commission.

BAD CHARACTERIZATION OF REPORT SHOULD NOT HAPPEN

Senator **Kasten**. Well, the problem is that someone is going to characterize this last hour as "Congressional budget experts attack Grace Commission," or maybe even worse, "CBO and GAO discredit Grace Commission report." That is not what is going on here, and it ought not to be what is going on here. I am hopeful that we can just change the kind of spirit or the mood that we are in.

Dr. Penner?

Chairman **Domenici**. Well, you just made the story. Nobody else said that until you said it.

Senator **Kasten**. That is what these guys have been saying.

Dr. **Penner**. Well, I certainly deny saying it, sir. I think anybody who takes the trouble to read our report will find every point you made documented in it. As I said, not being able to cost out a particular proposal does not mean it is a bad proposal; indeed, some of them are good proposals. The fact that we attach low budget savings to these things because of the way the Federal budget is defined, obviously does not mean that they should not be looked at.

It is very important, however, to differentiate those proposals that involve really major policy changes in the sense that they do involve value judgments and those that are management. And we do think it only fair to point out that the ones with the biggest dollar numbers attached, by our estimates, do involve very fundamental policy changes on the part of the Congress.

I think that there is another point that must be made. Because of the very large estimate of potential budget savings that the Grace Commission used, there is a notion about in the country, which should not be allowed to stand, that, somehow, the deficit problem that we face can be cured by implementing the proposals of this Commission. That is clearly not true. That, again, obviously does not mean that we should not use this Commission to help us make progress toward deficit elimination.

SAVINGS INVOLVE FUNDAMENTAL POLICY CHANGES

Senator **KASTEN**. Well, I am told that even after you get through what you can validate, what you can cost out, what you can criticize, and we go through all the efforts, you still end up basically saying that we can save—is it $98 billion from 1985 to 1987—that is worth doing. That is worth trying to move forward on.

Dr. **PENNER**. I think that the point to be made there is that, certainly, it is a big number. But again, it involves very fundamental policy changes. That is all we are pointing out.

Mr. **BOWSHER**. Senator, I saw this day coming. I had to testify on one portion of the Grace Commission report earlier before another committee, and I warned them at that time not to get those numbers too big. I said, "Scrub those numbers down to where they are realistic, because I think someday, ourselves or somebody else is going to be asked to come in and review the numbers, and it is going to have a great effect on the credibility of your overall recommendations."

So I think that your concern is right, and I regret that the difference between the savings estimates is that great. But I hope that our message is getting across, and I can assure you we are going to cooperate in trying to find those savings in the Grace Commission recommendations as we work with the executive branch and the Congress.

Senator **KASTEN**. Well, my time has expired, but I just want to say that I hope that we look upon this as an opportunity and not as an effort simply to defend ourselves against a private sector analysis of the Federal Government. To the degree that we look at it as an opportunity, maybe we save $98 billion, maybe we do not, but at least let us make a shot at it, let's make a try. We should not sit here and pick ourselves apart, the way we are doing. I think we are making a mistake.

Thank you, Mr. Chairman. I am sorry I went over the time.

Chairman **DOMENICI**. You are welcome. You did not go over too long. Do not worry about that.

Senator Exon, and then Senator Sasser.

GET AWAY FROM OVERSTATEMENTS AND UNDERSTATEMENTS

Senator **EXON**. Mr. Chairman, thank you very much.

I have been listening with interest and applaud some of the things that have just been said by my friend from Wisconsin. I do think we should take a clear and cautious look at all of these things, because we have got to do something. The magnitude of the problem is so big that I wonder if the people who send us here to carry this out have any conception of how big this problem is.

That is why I also applaud the statements that we should not be making overstatements or understatements of the magnitude of the problem that faces us. We are all looking for headlines; we are all looking for flashy terms, like a $100 billion downpayment on the budget over 3 years. I have found in talking to some people that they think that means a $100 billion per year reduction. And you have only got $180 billion under some set of figures, deficit, and if you are going to knock $100 billion off, that only leaves $80 billion, and then if you have $100 billion the year after that, then you are $20 billion to the good, and you can start applying that on the national debt; and then, the third year, you have got $100 billion that you can just put over there on the national debt.

Buzz words. Waste, fraud, and abuse. If there has ever been a misused word or collection of words in our dictionary, that is it. So I wish we could get away from buzz words. I wish we could get away from making overstatements or understatements and try to address the problem.

In that area, Dr. Penner—and I am not going to take too much time, Mr. Chairman, because I am anxious to get to the——

Senator SASSER. Let the record show I am listening to Senator Exon with rapt attention, Mr. Chairman.

Senator EXON. Thank you, my colleague, for your kind attention. I have the attention of the only Republican in the room.

Chairman DOMENICI. You are not counting me?

Senator EXON. I thought you had stepped out.

Chairman DOMENICI. I only did because I was waiting for you to come up with a buzz word. [Laughter.]

Senator EXON. Dr. Penner, I would like to ask you something not directly related, but something that I am a little bit confused about, and maybe you can clarify it for me.

Under the analysis of the President's budget proposals, I refer to pages 18 and 19 of that, and you say in your report to us that we are using, on the Federal deficit: "The magnitude shown in the administrative budget and in CBO's baseline projections would have major consequences both for the economy and for future budget choices."

Then you also go on to say: "Even at the present situation of less than full employment, deficits are likely to continue to raise interest rates."

Then I look over on the left side of that page 18, which is your projections, and I take it those are projections based upon your analysis of the President's budget, and as I read that, the President may be entirely right. Maybe we should just buy his budget right across the board, because if we do, according to the way I interpret the chart on page 18, 3-month Treasury bill rates indeed would go down, down from in the area of 9 to the 8½ area, not down to under 5 percent, as the administration proposes. Then, below that, you project that inflation rates—despite the fact you say it might be driven up, and interest might be driven up—inflation rates go down to roughly 3½—no, not down to 1½ percent, as projected by the President.

JUDGMENT ON ECONOMIC THEORY

I guess my question is if we have deficits as high as you say under the President's budget, each and every year higher than the President, and in 1988, the President says $152 billion in deficits, you say $241 billion; in 1989, the President says 123, you say $248 billion, and yet, your projections indicate to me that even using the President's budget, if we adopted it in toto and went on on that basis, we would have a $248 billion deficit in 1989, but all during that period, we would have a reduction in interest rates and a reduction in inflation rates—and I do not understand it.

Dr. **Penner**. Let me try to clarify it for you, Senator.

First of all, our judgment on economic theory is that there is a positive relationship between the size of the deficit relative to GNP and interest rates. So that means as deficits go up, we would expect interest rates to go up; as deficits go down, we would expect interest rates to go down. Now, obviously, deficits are not the only thing that affect interest rates. There are all sorts of other things going on as well.

The second point to remember—and it is hard to explain—is that, in those charts that you were looking at, only 1984 and 1985 represent an economic forecast. The rest of the projection, as we say in our report, is simply based on an historical trend. It is not meant to be consistent with current policy, because we all know that, whatever you do to policies, they are not going to be the same 2 years from now as they are today. So what we give you for the years 1986 and onward is just the historical basis on which you can evaluate various budget proposals.

Now, we have interest rates coming down in 1985 somewhat, because the deficit in 1984 and 1985 is really somewhat lower, especially relative to national savings. You will see that we also say that in 1983 the deficit was some 103 percent of net national savings—that is after you deduct depreciation—whereas it comes down to the 80-percent range in 1985. That plus a whole bunch of other things, in our judgment, warrants a somewhat lower interest rate.

Now, I do not know if you have with you volume 1 of our annual report, but on page XVII, we have a chart. Do you have that, Senator?

Senator **Exon**. I am sorry, we do not have it with us. Explain it. Go ahead. I can get it.

Dr. **Penner**. The basic point is that, while interest rates are shown to decline, as the deficit has come down slightly relative to GNP, this dotted line, if you can see it, shows where we are in the current recovery as opposed to the average experience. Now, where we are is with a real interest rate that is far, far higher than the one in our average experience. And I would suggest to you that that is because, in part, we have a deficit that is far higher than we have had in our historical experience. But I think the important thing to differentiate is between the level of the interest rate, which is very high, and how it might wiggle around that high level in the future as the deficit and a myriad of other factors also wiggle around.

MAYBE PRESIDENT'S RECOMMENDATION SHOULD BE BOUGHT

Senator **Exon**. All right, to sum up, then, is it possible, Dr. Penner, for you to supply me with these two charts based on adopting the President's budget? You said you throw them away after 2 years. So much of the stuff we get here from the administration—and I have never seen it from the CBO before—they tell us to throw it in the wastebasket; it does not mean anything. "Just forget about it." That is the testimony that we had from the Secretary of the Treasury regarding the economic forecast from the administration. When I look at the future of—I am looking at this program here, and it is based on the President's budget to us, and it shows interest rates coming down, it shows the inflation rate coming down, and if that is true, despite the high deficits, maybe we just ought to buy on; maybe we ought to buy on completely to what the President is recommending.

Are you telling me, then, that this chart on page 18 is not a projection that if we buy on in toto to the President's budget that those things are going to happen, that interest rates are going to come down, or inflation is going to come down?

Dr. **Penner**. No, sir. To be very specific about it, our numbers for 1984 and 1985 are our projections of the economy to the best we can make it, for current policy. We have used those projections to evaluate the President's budget, and in '84 and '85, there is not really a great deal of difference between them.

As I said, beyond that point, we make no pretense that those historical projections are consistent with either a continuation of current policy or an adoption of the President's policy. The reason we do not is simply that it is so hard to forecast out there. It is very hard to say what would happen if you followed either set of policies—and we know you will not, so we do not attempt that kind of projection. The basic point is to have a set of economic assumptions that can be used to evaluate the various policy changes that you will contemplate as you deliberate and come toward——

FORECASTING DIFFICULT SECOND YEAR OUT

Senator **Exon**. OK, I will not press the point. But is it possible for you to give me a chart, privately or otherwise, that would make a projection on what the President's budget projections were, out to 1989—or is this it?

Dr. **Penner**. That is not it. It is a very difficult thing to do, simply because of the distance in the future that you are talking about. We do not do very well at forecasting the second year out. You are talking——

Senator **Exon**. I do not think you have here, either.

Dr. **Penner**. No, no. We have said very explicitly that is not a forecast. It is difficult for us. If the Congress set goals explicitly, we could use those as the basis for the kinds of calculations that you need, but the Congress does not do that. I will tell you very precisely how that was done. What we did was look at every recovery since World War II, and we asked: On average, what happens 7 years after a business cycle? What was the average rate of growth? And we assumed that is where you would end up in 1989. We assumed that the whole seven years following the business cycle trough would perform as average in the postwar period. That is precisely how we did it. I know it is very arbitrary, but we really have not got a lot of choice in the matter.

Senator EXON. Let me just say, Mr. Chairman, I thank you for your patience. It still seems to me that we should have some projections that we can work on, because when I look at that, I am inclined to think that we do not need any changes at all, we do not need the Grace Commission report, we do not need to act on them, and things are looking great. And if they are, and if that is what CBO is telling us in their out-year projections, what are we worried about?

Thank you.

Chairman DOMENICI. First, Senator, let me apologize for 7 or 8 minutes ago, when you quite properly stopped because some of us, including me, were not paying attention. I recognize you were very patient in waiting your turn, and you participate fully in this committee, and I do not think I was quite as respectful as I ought to be.

Senator Sasser, you are next, and then Senator Biden.

Now, we have Peter Grace waiting. I do not think we are going to go two rounds, but we are surely going to take our one round, if that is adequate for you, Senator Sasser and Senator Biden.

Senator SASSER. That is fine with me, Mr. Chairman.

Chairman DOMENICI. Why don't you proceed, Senator?

COORDINATION BETWEEN FISCAL POLICY AND MONETARY POLICY

Senator SASSER. Thank you, Mr. Chairman.

Dr. Penner, for some time, there has been considerable discussion about the need for coordination between fiscal policy and monetary policy. Indeed, there is a strong argument to be made, and one which I subscribe to, that the recession was precipitated by the administration's adherence to a deadly combination of expansive fiscal policy and overly-restrictive monetary policy.

Now the administration seems to be adopting the view that is being put forth by the Federal Reserve Board Chairman, Mr. Volcker, that once again the money supply needs to be tightened. In testimony before this committee a few weeks ago, Dr. Penner, you stated that—and I quote—"The current U.S. monetary and fiscal policies are unusual"—which I thought was a master of understatement—and continuing to quote you, you said, "and may not be consistent with the projected growth path" in the President's budget.

First, I would like to get your comments on the impact of further tightening of the money supply by the Federal Reserve, as enunciated by Mr. Volcker, and second, I would like to ask you whether you believe it is not only appropriate but necessary for consideration of monetary policy to be incorporated here in the budget process.

Dr. PENNER. Responding to your first question, sir, our forecast for 1984 and 1985 assumes that the Federal Reserve Board will do what it said it would do in its report to the Congress of early this month, the so-called Humphrey-Hawkins report. In that report, the Chairman of the Federal Reserve Board said that it was his intention to have the narrow definition of the money supply grow somewhere between 4 and 8 percent from the last quarter of last year through to the last quarter of next.

We assumed that they would be very precisely 6 percent, right in the middle of that range. Our interest rate forecasts and all of the inflation forecasts and everything else for 1984 and 1985 are based on the combination of that monetary policy with current budget policy.

Very obviously, if for one reason or another, the money supply growth—and that is the only way to describe their targets—is lower, then all else equal, we would tend to forecast a somewhat lesser rate of economic expansion. I would qualify that remark. That remark sounds more mechanical than I intended it to be, because we economists have been puzzled in recent years by some very odd aberrations in the demand for liquidity. But presuming that there are not those kinds of aberrations, then my rather mechanical statement would stand.

Obviously, if they were to exceed the rate of growth that we assumed, we would, all else equal, have a more expansive forecast.

To answer your second question, should monetary policy be part of the budget deliberations, I think in pure theory, perhaps so. The problem is that, as I said before, it is hard for me to see how the Congress can be very precise about that without setting explicit goals for how it wants the economy to grow in the future. I do not think that, at this time, the Congress has an institutional mechanism for setting such goals.

FALL IN MONEY SUPPLY WOULD AFFECT ECONOMIC GROWTH

Senator **Sasser**. Dr. Penner, let's just take, for example, a hypothetical. Suppose this year, the Federal Reserve Board departed from its projected money supply growth of 4 to 8 percent that they reported in the Humphrey-Hawkins report and rather than the 6 percent growth in money supply that you have cranked into your figures here, we should fall back to a 2 percent growth in money supply. Now, isn't that going to knock all of our economic assumptions into a cocked hat, on which we base revenue growth, economic growth, et cetera?

Dr. **Penner**. Absolutely, sir—at least, assuming all else equal, if we did not get some surprising change in the demand for liquidity that went along with that. Certainly, we would have a much less ebullient path.

I should say as an aside that we have in our various reports to you, particularly in Chapter IV of part II of our annual report, we have given you sensitivity analyses as to how much various changes in economic variables would mean in the budget. We have also provided there along with two elaborate different scenarios—one much more ebullient than the one I have been discussing here, and one much less ebullient. The one, in fact, actually contains a recession in it in 1986. That would give you some sense of the size of the cocked hat that we are talking about here.

MONETARY POLICY SHOULD BE HOOKED TO THE BUDGET PROCESS

Senator **Sasser**. But my point is that we can struggle and wrestle with this budget and the budget deficit here, for weeks and months, which we will do, and make some very painful decisions, and all this would simply come to naught, if down the street, without consultation with the Congress, without consultation, we assume, with the White House, if Mr. Volcker should just suddenly decide, "We are going to put the stops on the growth in money supply here." That means that the works of this committee, the Finance Committee, the economic work of Dr. Feldstein and his projections, and all the work of your people amounts to nothing. And it appears to me that, given that scenario and what we have seen the Federal Reserve Board do over the past 4 to 5 years, that it is appropriate that monetary policy, or instructions about monetary policy, be hooked into this budget process at some point, because if it is not, it appears to me that we are like two footballs teams, opposing each other, but playing on different fields. What we do on our field is totally irrelevant to what Mr. Volcker does with his Federal Reserve Board red shirts over on the other field.

Dr. **Penner**. Senator, I think it only fair to point out that that, indeed, is the intent of the Humphrey-Hawkins hearings. That is, the chairman comes before the Congress to tell you his plans. There may be good reason, as I said, because of surprising developments that we have not anticipated, for him to change those plans as the year goes on, but there is a continual consultation about that, as he testifies many times during the year.

Chairman **Domenici**. He will be here in the morning.

Senator **Sasser**. That is the reason I am asking this question this afternoon, Mr. Chairman; I am getting ready for him tomorrow morning.

Chairman **Domenici**. Good.

Senator **Sasser**. Is my time up?

Chairman **Domenici**. Your time has been up, but we can take part of Joe Biden's and give it to you.

Senator **Biden**. You are welcome to take part of my time.

Senator **Sasser**. Well, if you have got a question you want to ask, Senator Biden——

Senator **Biden**. I have questions, but you can take some of the time.

Senator **Sasser**. Well, my questions are not of such burning importance that I want to take Senator Biden's time, Mr. Chairman. I want to see what he is going to ask.

Senator **Biden**. Mr. Chairman, and gentlemen, I apologize for being late. We were over in the Intelligence Committee in a closed meeting.

SOME SAVINGS COULD BE IMPLEMENTED NOW

I have three questions. The first is, as I read a statement that was handed to me, you say that one-half of all the savings in the Grace Commission report with which you find some merit, which is a total of two-thirds of the Grace Commission report's recommendations, of those two-thirds, of the two-thirds that you agree with, or that have some merit, one-half of those are able to be implemented today, if the President so desired, by Executive order. Is that correct?

Mr. **Bowsher**. About half of the Commission's recommendations we examined do not require congressional action.

Senator **Biden**. Do you have any dollar estimate, roughly, on what they would be, those one-half?

Mr. **Bowsher**. We can provide that for the record.

Senator **Biden**. I would appreciate that very much.

RECOMMENDATION TO BE IMPLEMENTED

The second question I have is—and by the way, I am impressed—and I am not being facetious—I am impressed with your ability to put together a study like this on the short time you have been given, with what I think were some fairly vague recommendations that were made, and I compliment you on that—but of those recommendations you have been able to examine, if I were President and I came to you and I said, "I am going to implement one; give me just one that will give me the biggest bang for the buck," what of all the things that you reviewed is the most significant in terms of the dollar amount and merit, in terms of what you have examined? Now, I realize that is a tough question, but I want to get a sense of where we are here.

Mr. **Bowsher**. Let's see, the biggest dollar one——

Senator **Biden**. That you think is implementable.

Mr. **Bowsher** [conferring with staff]. The biggest one that we would have on our descending list would be improving Federal productivity and office automation, which would be about $3 billion as priced out by CBO.

Senator **Biden**. Now, would that require any Congressional action?

Mr. **Bowsher**. I do not believe so. I think that could be done without—we could check our listing, but I am quite sure.

Senator **Biden**. Now, is that $3 billion over——

Chairman **Domenici**. Over how long?

Mr. **Bowsher**. Over 5 years.

OTHER IMPROVEMENTS IN FINANCIAL MANAGEMENT STRUCTURE

Senator **Biden**. OK. And the last question I will ask—because I know we are anxious to hear Mr. Grace, Mr. Chairman—on page 5 of your statement, you indicate that, "We believe, however, that the results of adopting biennial budgeting, without other needed improvements in financial management structure of the Government as a whole would be disappointing." That is in the context of talking about biennial budgeting for weapon system procurement, which I think is a pretty good idea.

Mr. **Bowsher**. Yes.

Senator **Biden**. But I am curious as to what other improvements in financial management structure would be required.

Mr. **Bowsher**. Biennial budgeting might well be a good idea Senator, as I mentioned that to the chairman before. However, we think it should be looked at in a total package of financial management improvements.

I had an advance copy of Mr. Grace's statement, and I know he is going to be raising the issue of the accounting system in the Federal Government, and I agree with him that there are some real problems in it. We are going to be coming out here in the next 30 to 60 days with a report on what we think are some of the overall improvements in the Federal Government's financial management system. I think once we get that out and you look at it, you will be able to see some of the issues that we think ought to be addressed in addition to biennial budgeting.

Senator Biden. OK. I thank you, and I thank the chairman.

Chairman Domenici. I think what he said, Senator, in response to a question somewhat like that, was that he was not against that. He was merely saying that he would not like us to see another failure, that we pass this little piece and we would not get the result if we did not tie it into—is that about right?

Mr. Bowsher. That is correct.

Senator Biden. I do not think I disagree with you. My instinct and my inclination tells me it is a good idea and would be an improvement. But the reason I ask for more information is because I do not know.

Mr. Bowsher. Your instinct might be absolutely right, and we might agree.

But one of the things on major weapon systems, for example, is the periodic report that does not tie to the accounting system, but ties to the budget system only once a year. Senator Nunn and others were so frustrated with that report that they put through the Nunn amendment a couple of years ago. What I am saying is that I think that kind of problem ought to be addressed at the same time you look at biennial budgeting and other aspects of overall budgeting and accounting structure reform. It will not solve the $200 billion deficit problem, but I think it will help the decisionmakers, both in the executive branch and in the Congress.

Senator Biden. I appreciate that, and I look forward to your breaking out as best you can that proportion of administratively implementable recommendations in dollar amounts.

Mr. Bowsher. We will do that.

[The following was subsquently supplied for the record:]

Proposals Supported by GAO That Require Only Administrative Action

In preparing its savings estimates, the Grace Commission often did not estimate savings for each recommendation. Instead, in these instances, it provided an overall estimate for groups of recommendations that it organized into broader categories termed "issues." Accordingly, in cases where we had varying views on the component recommendations within the issue, it was not possible to determine a dollar value for those individual recommendations we supported versus those we did not support.

We can, however, list those broader groupings of Grace Commission proposals that we can generally support and are administratively implementable along with the associated Commission and CBO savings estimates. The list is provided below broken out into the categories of national defense, entitlements, nondefense discretionary programs, Federal civilian employment and compensation, and revenue measures.

Administratively Implementable Proposals Supported By GAO

Category	Proposal	Grace Commission Estimate ($ billions)	CBO 3-year Estimate ($ billions)	CBO 5-year Estimate ($ billions)
National Defense	Change Physical Inventory Management	4.5	a/	a/
	Increase Use of Common Parts and Standards	7.3	a/	a/
	Revise DOD Financial Reporting and Control	1.2	a/	a/
	Consolidate or Close Bases and/or Base Activities	4.3	a/	a/
	Improve Procurement Process Management	7.8	a/	a/
Entitlements	Refine VA Response to Guaranteed Loan Foreclosures	.2	.3	.4
	Coordinate and Automate State Welfare Data	1.4	.0	.1
	Improve Enforcement of Social Security Earnings Limit	4.0	.0	.0
Nondefense Discretionary	Update Computer Hardware and Improve Software Resources Management	4.0	a/	a/
	Reduce Size of Government Vehicle Fleets	1.5	.3	.4
	Increase Use of Performance Specifications for Construction Projects	1.3	a/	a/
Federal Civilian Employment	Improve Social Security Management Techniques	1.3	.1	.3
	Improve Federal Productivity/Office Automation	17.1	.5	3.1
	Make In-House Property Maintenance More Productive	1.1	.0	.3
Revenues	None			

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a/CBO was not able to make a savings estimate for this proposal.

Senator CHILES. Mr. Chairman, I know that you need to get to Mr. Grace, and I want to do that, too. I have one question that I would like to ask for the record. Could you supply us with a list of five recommendations that the Congress could implement that would have most importance, and five on the administrative side that could be done.

Mr. BOWSHER. We can provide that for the record.

Senator CHILES. Thank you.

[The following was subsequently supplied for the record:]

I. Largest Five Grace Commission Proposals Supported by GAO Requiring Only Administrative Action

Set of Proposals a/	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)
1. Improve Federal Productivity/ Office Automation (ADP-6; PER-16)	17.1	.5
2. Improve DOD Procurement Process Management (PROC-6, 7, 8, 9)	7.8	b/
3. Increase DOD Use of Common Parts and Standards (OSD-20)	7.3	b/
4. Change Physical Inventory Management (PROC-10, 12)	4.5	b/
5. Consolidate or Close Bases and/or Base Activities (OSD-4, 8, 9)	4.3	b/

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a/The corresponding Grace Commission issue code number is provided in parentheses.

b/CBO was not able to make an estimate of savings.

II. Largest Five Grace Commission Proposals Supported by GAO Requiring Congressional Action

Set of Proposals a/	Grace Savings Estimate ($ billions)	CBO 3-year Savings Estimate ($ billions)
1. Improve DOD R&D Strategic Planning and Management (R&D 1, 2)	6.1	b/
2. Repeal/Modify Davis Bacon Act (USAF-15; LABOR-12; WAGE-1)	5.0	1.5
3. Improve Resource Allocation in VA Hospitals (HOSP-4)	4.9	b/
4. Improve Research & Development Management (Civilian) (R&D 1, 2)	4.9	b/
5. Reform Pay Comparability Process for White Collar Employees (PER-6)	4.1	0

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a/The corresponding Grace Commission issue code number is provided in parentheses.

b/CBO was not able to make a savings estimate for this proposal.

PURPOSE OF HEARING

Chairman **Domenici**. Before you leave, let me say to Senator Kasten and perhaps, Senator Exon, in terms of what was the purpose of this hearing and what was the tenor of it, in terms of the Grace report, let me suggest that Mr. Grace himself, in testifying before the Finance Committee, has stated on page 17 of Dr. Penner's report—he said that the Commission's 3-year estimate of $424 billion did not refer to a particular set of fiscal years, and certainly not the next three. "He identified a number of proposals, however, that he thought could produce savings of $59 billion over the next three years." Dr. Penner says:

> While not agreeing necessarily with the specific savings estimates attached to those Commission proposals singled out by Mr. Grace for quick action, CBO does agree that savings of this magnitude are a more reasonable estimate of what could be achieved during the next 3 years by implementing the Commission's many recommendations.

Now, I surely think the Commission did an admirable job, something that we should followup on, but I think it is imperative that we have statements like that before this group also, and I clearly do not think that is a disparaging statement, especially since it is made by the author or Chairman of the report.

We are here to find out how it might affect our work. All of them may be meritorious, as you have indicated, Senator Kasten. But I do think there is a need for perspective, because we have a tough job—how do we get $100 billion worth of savings over the next 3 years on the military and the rest?

Clearly, we are looking at a number bigger than $59 billion, I think, from defense and the rest of the Government, more than the $59 billion that is recommended here——

Senator **Biden**. Mr. Chairman, I am not being smart, but will you say that again? You say that Mr. Grace says that in the next 3 years, he can find $59 billion?

Chairman **Domenici**. No. If I read Dr. Penner's remarks on page 17—and I was only quoting verbatim—he said that he thought, from the testimony of the Chairman before Finance, that they did not recommend $424 billion over the next 3 years, that it was not that 3; that maybe it was $59 billion over the next 3 years. And Dr. Penner said, "I think that is more appropriate in terms of what you can find, although I might not agree with the Chairman as to precisely how the $59 billion was arrived at."

Do I read you correctly?

Dr. **Penner**. Absolutely.

Senator **Biden**. Thank you.

Chairman **Domenici**. So I do not think that is the wrong thing to do at a hearing here. I think that is what we are here for.

Senator **Biden**. Right.

Chairman **Domenici**. On the other hand, we have all complimented that private sector group, and we will hear from its chairman shortly.

We thank the two of you. If you will give us the answers we requested, we will try to formulate a policy on reporting regularly. If we do, we will pass it somewhere and get it on to you as part of our request.

Thank you very much.

Now, we are pleased to have the Chairman of the Commission here, Peter Grace, with the Grace Commission's recommendations.

Mr. Grace, we have heard, and we hope you and your assistants have had a chance to evaluate the statements of Dr. Penner and the head of GAO. They have testified and been questioned for about 1 hour and 30 minutes.

Would you for the record identify those at the table with you so we will know who they are?

STATEMENT OF J. PETER GRACE, FORMER CHAIRMAN, PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, AND CHAIRMAN AND CHIEF EXECUTIVE OFFICER, W. R. GRACE & CO., ACCOMPANIED BY DUNCAN BAILEY, VICE PRESIDENT, W. R. GRACE BUSINESS ECONOMICS GROUP; J. P. BOLDUC, FORMER CHIEF OPERATING OFFICER OF THE SURVEY, AND SENIOR VICE PRESIDENT, W. R. GRACE & CO.; AND LEONARD KAMSKY, SENIOR VICE PRESIDENT, W. R. GRACE & CO.

Mr. Grace. Certainly, Mr. Chairman.

On my extreme left is Duncan Bailey, who used to be a schoolteacher, and then he became an economist. He is very bright. And he is vice president of Business Economics at W. R. Grace & Co.

On my left is J. P. Bolduc, who has been around Washington for years. He was formerly Assistant Secretary of Agriculture under Mr. Butz, until Mr. Butz told too many Japanese stories, and then they all went out, but he stayed on with the Carter administration for 6 months, in order to perform a continuing operation. And now, Mr. Bolduc has been the Chief Operating Officer of the President's Private Sector Survey on Cost Control, and then he had to find some income, so he spoke to me, and now he is on W. R. Grace & Co. payroll, because his former employer would not keep him on any longer while he was working on this Government work.

On my right is Leonard Kamsky. He is an economist, and he is the senior vice president of W. R. Grace & Co. and he is a former jogging partner of Senator Symms around the reservoir in Central Park.

Chairman Domenici. That qualifies him—if you ran with Senator Symms, then you know about budget cutting.

Chairman Grace, how do you want to proceed?

Mr. Grace. We are completely at your service. I recognize the lateness of the hour, Mr. Chairman. We only come here to serve you; we are your humble servants. So, if you tell us what you want, we will try and provide it. We have something that could last 90 minutes, 30 minutes, 10 minutes—whatever you want, whatever you want.

Chairman Domenici. You are absolutely incredible. [Laughter.]

We ought to start with you in the morning; it would make a lot nicer day. You certainly have not been living in Washington for most of your life, I can tell that.

Mr. Grace. I have enjoyed it. I suddenly realize how much I have been missing. When we used to have Panagra and the Grace Line, it took me 2 months to get an appointment to see an assistant secretary of Commerce, and they would usually give me 10 minutes while they were not on the phone. So it has been an ego trip to come down here and meet people, like these important people—imagine, my sitting here with all the attention. I cannot believe it.

Senator BIDEN. Nor can we. [Laughter.]

Chairman DOMENICI. Senator Biden, I was going to say that, but it was nice of you to accommodate me.

Why don't we do this—can you give us a 10-minute summary, and then we will proceed with some questions? Let me start by asking, are you aware of the evaluation—you and your Grace associates——

Mr. GRACE. We have been working all weekend on it, and we have a response.

Chairman DOMENICI. Give us the response.

Mr. GRACE. Why don't we hit it fast?

Chairman DOMENICI. Let's go.

Mr. GRACE. OK, and I will skip, "Mr. Chairman, I am pleased. . . .," and all that stuff, and my name—you know, it is a waste of time.

Chairman DOMENICI. Well, you had better be half-nice. [Laughter.]

MISUNDERSTANDING OVER 3-YEAR PERIOD

Mr. GRACE. Now, the CBO/GAO included 396, or 16 percent of the 2,478 recommendations in our 47 task force reports. The savings attributable to those 396 recommendations amount to $379 billion over 3 years, or 89.3 percent of our $424.4 billion.

We presented savings for 3 years following full implementation. Now, that has been a major misunderstanding as to what 3 years it is. We said from day one. Each one of the 2,478 suggestions are estimated as of the first day of implementation, whenever that is. We never set any specific year.

However, the CBO and the GAO estimated savings for the fiscal years 1985, 1986, 1987.

Now, we are very pleased that they found $97.9 billion of PPSS savings possible over that 3-year period. We repeat: they only examined 16 percent, or the 396 biggest dollar recommendations out of 2,478. They did not assign savings to the budget for 122, or 31 percent, of these 396 recommendations.

Third, the $97.9 billion does not include savings which will occur in later years.

Fourth, and by the way, if you look at any 3 years—and I do not want to get into a political discussion—on our personnel task force, we had about 30 or 40 people. They were led by some of the best personnel people of the Fortune 500. They took months and months to make comparable salary, pension, sick leave, you-name-it, policies on the companies all over America, and they came up with pension savings of $58 billion.

FORECASTING SAVINGS ON PENSIONS

Now, if you take 3 years, 1985 through 1987, or any immediate years, you get none of that. So, how did we forecast the savings on the pensions? We estimate when you might start making the savings, depending on when you bring the pensions more nearly to the private sector level—obviously, you cannot do it to people who are above 40 years old, and they would be the first ones hit, because you cannot take away something that people have, and we would be the first to say that—or second, after you people. But the thing is that obviously, you do not get the savings, therefore, before 2002. But we cannot get hoisted on our own petard. First, we are nice and say, "Of course, you do not take it," and then they say, "They do not have any savings." Well, you cannot have it both ways.

Fourth, the $97.9 billion does not include savings which occurred in 1983 and 1984, which are already in the 1985 budget.

Now, on page 3—I think you all have our testimony—this is really the jugular of the whole thing, and that is that CBO has $97.9 billion; the recommendations studied by CBO for which they did not include savings for 1985-87, is $87.7 billion; that gives you $185.6 billion. The recommendations not studied are $61.3 billion, for a subtotal of $246 billion. Recommendations for later years is $130.9 billion. Recommendations already put into place is $23 billion. Additional interest using the CBO method, 1985-87, is $37.1 billion. So we get the total savings of $437.9 billion.

So, we are ahead here in the first 10 minutes. They have more. Now, if you take the $37.1 billion from the $37.9 billion, now you have got about $401 billion, or something like that, because we did not include that interest.

Now, a lot of people have said, "These guys have come down here and used 10 percent inflation. They are exaggerating everything."

Well, when we started, the inflation was 13 percent. We had to issue instructions to these 2,000 people that were out there as to, how they would make their forecasts and their calculations. So we said conservatively, 10 percent. And of course, it is no longer conservative to talk 10 percent—although in the first month of the year, as you know, inflation is running at 7.2 percent. I do not know what inflation is going to be, or interest rates. If I did, I would be competing with Henry Kaufman in New York. But the thing is, if you take the inflation down from 10 percent to 5 percent, it only reduces it by 5 percent; the $424 billion becomes $404 billion. So it is no big deal. I mean, there is no point in saying we inflated the thing by using 10 percent, when it is a difference between $404 billion and $424 billion. But anyway, this comes out at $400.9 billion, which is $401 billion. So that is what the CBO and the GAO have come out with. Now, that is really the jugular of our whole thing.

I do think we ought to say a couple of other things, Mr. Chairman.

We note from the preface of the CBO/GAO analysis that "the report focuses on those recommendations that the Grace Commission estimated would have major budgetary savings." Thus, the CBO/GAO analysis does not cover three PPSS reports—Federal financial management, Federal management systems, and information gap. And unless you study those three reports and understand them, you basically cannot really get to the bottom of PPSSCC, since they are fundamental to improving the efficiency and effectiveness of the Government, but for which no savings were claimed by us at all. And I think they are the three most important reports.

ACCOUNTING SYSTEMS INADEQUATE

The Federal budget accounting system could not be used to control a private sector company; no way. A company trying to use the Federal system would go bankrupt, really. And we are not down here to attack anybody. Fortunately, the U.S. Government has unlimited borrowing power and the deficiencies in their accounting system—and there are 331 incompatible accounting systems in the Government, and none of them are adequate—the accounting system really is a true misnomer, since there is a lack of accountability in the Federal system, and of course, it can be masked by ever-increasing debt to cover ever-increasing deficits.

The accounting system which forms the basis for the CBO/GAO analysis is of limited usefulness as a cost-controlling mechanism. That is the real point. In companies, you have certain purposes for your accounting system, and one of them is a major cost control system. Now, you cannot cost control the Government with the accounting system here.

For example, a logical first question in beginning a cost control analysis is how much is being spent by line item of expense, and what has been the trend in spending. That is what all executives do: What are we spending for "*x*" and what is the record there?

Now, CBO and GAO would undoubtedly respond by referring to Federal outlays, because you cannot get a breakdown of the obligations.

Now, on- and off-budget outlays are estimated at $870 billion for 1984. This is not fully representative of Government spending, since the Federal accounting system nets out, or offsets, spending by related revenues. For instance, Federal obligations are a more meaningful measure of gross Government spending, and they are at $1.24 trillion in 1984, or 42.5 percent greater than outlays.

Now, if you have to control costs by analyzing outlays, that is the same as a private sector company reviewing its gross profit while ignoring the total revenues and total costs which give rise to its gross profit.

APPALLING INFORMATION GAP FOUND

If we had reviewed the Government, made our recommendations and savings based only on their potential for near-term reductions in outlays and deficits, we would have short-changed the President who commissioned us to work like tireless bloodhounds—the universe of Government spending would have been 42.5 percent greater than what we reviewed if we had stuck to cutlays. Unfortunately, the Government has no published source which details total spending—by office, program, or by line item of expense.

When we found this appalling information gap, we spent the equivalent of 10 man-years to study and analyze the budget appendices to put together what every private sector executive has at his fingertips: an historical spending trend. In addition, we did not want to fall into the trap of only recommending actions which would result in near-term savings.

MAJOR CONTRIBUTING FACTOR TO OUR CURRENT FISCAL CRISIS

A short-term perspective in both the executive and legislative branches is a major contributing factor to our current fiscal crisis, in our opinion.

For instance, granting excessively liberal retirement benefits to civil service employees was a more politically palatable solution to the perceived problem of noncompetitive Federal salaries. Increasing salaries results in an immediate increase in outlays, while the costs of increased retirement benefits are largely in the future, particularly since the Federal Government does not reserve for past service liability, which now is $1.1 trillion in the CSRS and in the military, and it is not shown yearly in the budget, and the deficit would be $90 billion more if that were booked. So therefore, you do not book the cost, which the SEC makes every company in America book and show what securities are held, and how well-covered they are for past service liability; and you have the Pension Benefit Guaranty Corporation to prevent companies like Braniff from walking out on all their pension liabilities. Now, the Government, as Representative Ford said yesterday, unless we are taken over by Cuba, will always pay. That is right—pay in what kind of currency and at what cost to the taxpayer. But it should be booked. If you do not book the pension liabilities, you obviously do not make any saving if you cut pensions. That is really the problem.

We face a trillion dollar-plus unfunded liability in the civil service and military retirement systems, which we will bequeath to our children and our grandchildren, largely as a result of our reliance on a Federal accounting system which fails to meet any of the fundamental purposes of an accounting system, such as recognizing the total cost of your employees as they render service. We are left with a situation where neither increasing nor decreasing retirement benefits has really any impact on near-term outlays and deficits, yet either move has very significant political and economic repercussions.

PROTECT THE MEDIAN-INCOME FAMILY

Now, I know we are getting very close to the amount of time you have given me, and I just want to mention that we are down here basically to work for the taxpayers, the median income American taxpayers, whose annual taxes were $9 in 1948 and $2,218 last year, which is up 246 times. We do not care about the rich, those who make $75,000 or over, for the simple reason that you can only run the Government for 10 days if you took all their income. So there is no point in talking about Reagan tax cuts. Now, Mr. Mondale is talking about how he wants to take away the last phase of the Reagan tax cuts for everybody making over $60,000. That is fine. I hope he has an eyedropper when he does it, because it is nothing; it means nothing. It gets votes, but it is nothing. With a $200 billion deficit, it is probably $400 million. It is a laugh. But people listen to it and clap.

So, until we get some economic education in this country and some economic awareness, we are going to go right down the drain. All we are saying is we want to protect that median-income family whose taxes are up 246 times. Why is it? Because 90 percent of all the taxable income comes under $35,000. So, as you pass more and more of these transfer payments—and there are 83 million recipients now—you are taking away from 100 million workers in this country—and as it goes up from 83 million, to 87 million, to 90 million, and then it will be 100 million each; the score will be tied, and we will see who wins.

But we came down here only to protect the median American income tax family. Tax the rich if you want. It will not solve your problems. So that is the whole thing.

The last thing we want to say is that we have prepared responses to all 90 issues covered by the CBO/GAO analysis. I have included 17 issues in my testimony which I did not read to you since; it would take 40 minutes to read it.

The only thing we would like to walk you through is that big spread sheet, and Duncan Bailey will walk you through. It is being distributed right now.

Mr. Bailey. Mr. Chairman, as we developed the threeyear task force savings numbers, we decided it was also necessary to develop the savings on a budget-related, specific year basis for assessing the longer-term impact of PPSS.

In order to do this, we contracted with Data Resources, Incorporated, to build a baseline case. This baseline is similar to the CBO baseline, but is based on econometric equations and extends out to the end of this century. In addition to current policy, this baseline also incorporates the trends of the last 20 years. It also includes the effects of the entitlement programs which have been formularized into the law. We then recalculated all the PPSS savings on a budget basis and related them to the appropriate sub-function in the budget to which they belonged. Our savings case was then created by subtracting these year-by-year savings from the baseline previously established, plus the——

Chairman Domenici. Just a moment now. What are you referring to?

Mr. Grace. There it is.

Chairman Domenici. We do not have that.

Mr. Grace. Hasn't it been given to the Chairman yet?

Chairman Domenici. It will not help much. I cannot understand it. This is the one—"Savings Recommendations Related to the Federal Government"?

Mr. Grace. Yes, sir. It is a computer printout.

Chairman Domenici. We have it now.

$10.3 TRILLION SAVING IN 18 YEARS

Mr. Bailey. The results of this analysis showed a deficit in the year 2000 of $1.966 trillion before the introduction of PPSS savings and a deficit of only $37 billion in the year 2000 if all the Commission savings are implemented, for a favorable saving in the deficit of $1.929 trillion.

Mr. Grace. In one year. And the total cumulative saving is $10.3 trillion over the 18 years.

Mr. Bailey. Correct. The computer printout you have provides detail on how we related each of the PPSS savings issues to the budget and focuses on the relatively near-term period through

1989. The results shown here do not include any economic effect and are before the calculation of interest savings. The numbers shown in this computer printout form the basis for our comparison with the CBO-calculated savings, 1985 to 1987, which Mr. Grace used today. Specifically, the computer printout shows for each budget subfunction, the PPSS baseline, the savings we are claiming year-by-year, and the net result if these savings are achieved for the years 1983 through 1989, before any consideration of economic impact. In addition, the savings line is broken down to show for each subfunction the components of that savings by PPSS issue number, on a year-by-year basis. Thus, under the Individual Income Taxes, lines 1 to 11, on page 1, there are eight PPSS issues which go into the make-up of these savings in whole or in part. Each of the 130 subfunctions in the budget are treated in a similar fashion. Of course, the specific numbers shown here which, as I noted, are the basis for our numerical comparison with CBO, have certain assumptions built into them, including the use of our own baseline and a particular implementation scheme beginning in 1984. A full description of how we did this and what we assumed is contained in volume 2 of the report to the President.

While we believe that our assumptions and approach were correct, and we will defend it, we are also prepared to work with your staff or any other as we have already worked with the OMB and the Republican Study Committee, to provide further details or to vary the baseline, implementation scheme or savings claims in order to create alternative cases.

Mr. GRACE. Thank you.

That is about all we have to say within the time limit, and I think we went over our time limit, and I apologize, Mr. Chairman.

Chairman DOMENICI. Thank you very much.

[The prepared statement of Mr. Grace follows:]

TESTIMONY OF MR. J. PETER GRACE
BEFORE THE SENATE BUDGET COMMITTEE
FEBRUARY 28, 1984
DIRKSEN SENATE OFFICE BUILDING - ROOM 608

Mr. Chairman, I am pleased to accept your invitation to address the work of the President's Private Sector Survey on Cost Control (PPSS) and to respond to the points raised in the joint analysis of our recommendations which has been presented today by the Congressional Budget Office (CBO) and the General Accounting Office (GAO).

My name is J. Peter Grace and I was the Chairman of the PPSS and I am Chairman and Chief Executive Officer of W. R. Grace & Co. With me is J. P. Bolduc, who was the Chief Operating Officer of the Survey and who is a Senior Vice President of W. R. Grace & Co. In addition Leonard Kamsky, who is a Senior Vice President of W. R. Grace, and Duncan Bailey, Vice President of the W. R. Grace Business Economics Group, are with me today.

I'll be discussing today the CBO-GAO analysis of major PPSS proposals which included the review of 396 or 16.0% of the 2,478 recommendations included in our 47 Task Force reports. The savings attributable to those 396 recommendations amount to $379.0 billion over three years or 89.3% of PPSS total estimated savings of $424.4 billion.

Unlike PPSS, which presented savings for the three years following full implementation, CBO-GAO estimated savings for fiscal years 1985, 1986 and 1987.

Mr. Chairman, I am very pleased that the CBO-GAO analysis finds $97.9 billion of PPSS savings possible over the 1985-1987 period. As they have stated, their analysis was limited in four ways:

First, they only examined 16% or the 396 biggest dollar recommendations out of 2,478.

Second, they did not assign savings to the budget for 122, or 31%, of these 396 recommendations.

Third, the $97.9 billion does not include savings which will occur in later years.

Fourth, the $97.9 billion does not include savings which occurred in 1983 and 1984 or which are already in the 1985 budget.

The following puts this in perspective:

(Table follows)

POTENTIAL SAVINGS PER CBO AND PPSS
($ Billions)

Savings per CBO for 1985-1987	$ 97.9
Recommendations Studied by CBO for Which They did not Include Savings for 1985-1987	87.7
Subtotal - Recommendations Studied by CBO, 1985-1987	185.6
Recommendations Not Studied by CBO, 1985-1987	61.3
Subtotal, 1985-1987	246.9
Recommendations for Later Years Implementation	130.9
Recommendations Already Put in Place	23.0
Additional Interest Using CBO Method, 1985-1987	37.1
Total Savings	$437.9*

* Compares with $424.4 billion savings in PPSS final report for the three years after full implementation.

Thus, starting with CBO's estimates for the recommendations which they analyzed and to which they assigned budget savings, PPSS savings would be in excess of the $424.4 billion as submitted to the President.

In net, with regard to numbers, CBO-GAO has covered only part of the waterfront. While the CBO-GAO conclusions validate 25% of the Commission's savings, they do not invalidate the remaining 75%. Rather, the CBO-GAO analysis does not include the bulk of the savings.

We note from the preface to the CBO-GAO analysis that "the report focuses on those recommendations that the Grace Commission estimated would have major budgetary savings." Thus, the CBO-GAO analysis does not cover three PPSS reports, Federal Financial Management, Federal Management Systems, and Information Gap, which provide recommendations which are fundamental to improving the efficiency and effectiveness of Government but for which no savings were claimed by PPSS.

The Federal budget accounting system could not be used to control a private sector company. A company trying to use the Federal system would go bankrupt. Fortunately, the U.S. Government has unlimited borrowing power and the deficiencies in its accounting system - a true misnomer since there is a lack of accountability in the Federal system - can be masked by ever-increasing debt to cover its ever-increasing deficits.

This is a major point - the accounting system which formed the basis for the CBO-GAO analysis is of limited usefulness as a cost-controlling mechanism.

For example, a logical first question in beginning a cost-control analysis is how much is being spent by line item of expense and what has been the trend in spending.

CBO-GAO would undoubtedly respond by referring to Federal outlays.

On- and Off-Budget outlays are estimated at $870 billion for 1984. However, this is not fully representative of Government spending since the Federal accounting system nets, i.e., offsets, spending by related revenues. Federal obligations, a more meaningful measure of gross Government spending, are $1,240 billion in 1984 or 42.5% greater than outlays.

Controlling costs by analyzing outlays is akin to a private sector company reviewing its gross profit while ignoring the total revenues and total costs which give rise to its gross profit.

If we had reviewed the Government, made recommendations and calculated savings based only on their potentital for near-term reductions in outlays and deficits, we would have short-changed the President who commissioned us to work "like tireless bloodhounds" -- the universe of Government spending would have been 42.5% greater than that which we would have reviewed.

Unfortunately the Government has no published source which details total spending -- by office, program, by line item of expense.

When we found this appalling information gap we spent the equivalent of ten man-years to study and analyze the budget Appendices to put together what every private sector executive has at his finger-tips -- an historical spending trend.

In addition, we did not want to fall into the trap of only recommending actions which would result in near-term savings.

A short term perspective in both the Executive and Legislative branches is a major contributing factor to our current fiscal crisis.

For example, granting excessively liberal retirement benefits to Civil Service employees was a more politically palatable solution to the perceived problem of noncompetitive Federal salaries. Increasing salaries results in an immediate increase in outlays while the costs of increased retirement benefits are largely in the future.

So today we face a trillion dollar plus unfunded liability in the Civil Service and Military Retirement Systems which we will bequeath to our children and grandchildren --largely as a result of our reliance on a Federal Accounting System which fails to meet many of the fundamental purposes of an accounting system such as recognizing the total cost of your employees as they render service.

We are left with a situation where neither increasing nor decreasing retirement benefits has much impact on near-term outlays and deficits yet either move has very significant political repercussions.

The PPSS recommendations on Civil Service and Military retirement programs are indicative of the problems encountered in evaluating our recommendations within the context of the Federal Accounting System. If the Federal Government kept its books as the private sector does, the PPSS savings attributed to retirement recommendations of $58.1 billion would be realized over the next three years since the expense to which those savings relate would, by law, be recognized in financial statements. Conversely, the impact on the Government's budget is described by CBO-GAO as "relatively modest" over the 1985-1987 period since outlays are not significantly reduced.

Prior to discussing CBO-GAO comments on specific recommendatons, let me provide a brief overview of PPSS's formation, organization and conclusions.

President Reagan decided in February 1982 that it would be useful to have a study of the Executive Branch of the Government by members of the private sector, and he invited me to become Chairman of this effort. He felt a survey patterned after the Private Sector Study he instituted when he was Governor of California would be useful in identifying inefficiencies, overlap and waste in the operation of the executive departments and agencies. The President is very concerned about the tremendous increase in the cost of operating the Federal Government which has gone up almost sevenfold since 1964, from $119 billion to $854 billion for 1984. I share his concern.

On June 30, 1982 the President's Executive Order was issued establishing the PPSS, and we started to organize the 161 executives who had been recruited from the private sector into Co-Chairmen of 36 different Task Forces. Each Task Force was assigned to examine one or more of the departments or agencies in the government or some functional area cutting across government such as procurement and asset management. In addition, 11 special reports were prepared by the PPSS Management Office to examine areas of special interest.

In organizing this effort, the private sector was requested by the President to finance the entire survey. Accordingly, we recruited more than 2,000 volunteers from the companies of the Executive Committee members and others, and we raised $3.4 million from the private sector to pay for the central administrative expenses of the project. We created a special Foundation to handle the financing of these administrative costs. In total, the private sector incurred more than $75 million on the survey.

The 47 Task Force and Management Office Reports, consisting of over 20,000 pages of material, 1.5 million pages of supporting documentation and including 2,478 recommendations, have all been submitted to the President.

The areas of Program Waste and Inefficiency, and Systems Failures account for $312.2 billion or almost three-quarters of the $424.4 billion total savings identified in those reports, as summarized in the next chart.

(Table Follows)

PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL (PPSS)

RECOMMENDED SAVINGS
OVER A 3-YEAR PERIOD
$424.4 BILLION

		($ Billions)
Program Waste (443 Recommendations)		$ 160.9
- Subsidy Program Expenditures		
- Lending Programs and Debt Collection Activities		
System Failures (1,152 Recommendations)		151.3
- The Information Gap		
- Government Finances		
Personnel Mismanagement (422 Recommendations)		90.9
- Compensation		
- Retirement Plans		
Structural Deficiencies (211 Recommendations)		12.7
- Central Financial and Administrative Management		
- Management Tenure in Key Positions		
Other Opportunities (250 Recommendations)		8.6
Total	2,478 Recommendations	$ 424.4

In reality almost all the waste and inefficiency we found in the Federal Government can be traced to systems failures and restraints put on the management of the Executive Branch by the Congress. There is hardly anything basic in the management of Government operations that doesn't require Congressional approval, be it closing obsolete facilities, buying new computers, the wage scale on Federal construction projects, or just about anything that might result in greater efficiency including policy decisions in the VA affecting as few as three employees.

In this regard it is of interest to note that CBO-GAO stated that "the bulk of the cost savings estimated by the PPSS are associated with proposals to change policies or to restructure programs".

Having given much thought to the subject I have concluded that it is often impossible to differentiate policy and operational recommendations.

For example, it is policy to feed hungry children -- a policy with which I and my associates are in complete agreement. However, when the same child is fed through the Food Stamp program, the School Lunch program and other child nutrition programs and PPSS identifies and recommends discontinuation of overlapping and duplicative benefits is it policy or operations?

We think operations; CBO-GAO apparently thinks policy.

Is it Congressional policy to pay duplicative benefits? If it is, the taxpayers should be so informed.

As I said, we agree hungry children should be fed, but this objective should not be met by intentionally duplicating benefits but rather by a well-thought-out, well-managed program.

As another example, is it Congressional policy to supply free towing services to yacht owners? If this policy were submitted to a referendum, I doubt that it would pass. Again, this is an item included in the CBO-GAO analysis as a Policy and Program Proposal.

Early on in the PPSS project we determined that the problem of excessive Federal spending and mounting deficits was approaching critical proportions and that this should be identified and emphasized to stimulate action. To assess the problem fully and fairly, we employed a leading economic forecasting firm, Data Resources, Inc., to project the Federal deficit situation with and without the PPSS recommended savings. The conclusion was compelling; if fundamental changes are not made in Federal spending, as compared with the fiscal 1983 deficit of $195 billion, a deficit of over ten times that amount, $2 trillion, is projected for the year 2000, only 17 years from now.

As unbelievable as this $2 trillion may seem, it is simply the working of compound inflation and interest seen as follows:

(Table on next page)

THE POWER OF COMPOUNDING

		(1)	(2)	(3)
(1)	Inflation Rate		6%	
(2)	Interest Rate		11%	
(3)	Combined Rate		17%	
		With $1 Saving Per Year		With $100 Billion Saving Per Year
(4)	Cumulative Saving In 12 Years	$32		$3.2 Trillion
(5)	Cumulative Saving In 17 Years	$71		$7.1 Trillion

The current and projected deficits are unacceptable to Congress, the Administration and the American people. However, how those deficits are to be attacked has been the subject of much debate.

The available options are simple:

- reduce costs,
- increase taxes, or
- some combination of the two.

The tax burden on the average American family is already at counterproductive levels, with the underground economy now growing to an estimated $500 billion per year, costing about $100 billion in lost Federal tax revenues per year.

The size of the underground economy is understandable when one considers that median family income taxes have increased from $9 in 1948 to $2,218 in 1983, or by 246 times, while gross income has increased just 7.6 times over the same period -- taxes up 32.4 times more than income.

(Chart Follows)

TAXES ON THE MEDIAN INCOME FAMILY

		(1)	(2)	(3)	(4)	(5)
				Average Tax Rates On Gross Income		
		Median Family Gross Income	Median Family Taxes	Actual	Required To Balance The Budget	Percent Required To Balance The Budget Above/(Below) Actual
(1)	1948	$ 3,187	$ 9	0.3%	0.1%	(66.7)%
(2)	1958	5,087	303	6.0	6.5	8.3
(3)	1970	10,216	902	8.8	9.1	3.4
(4)	1981	21,462	2,221	10.3	12.4	20.4
(5)	1983E	24,100	2,218	9.2	15.9	72.8
(6)	1983E As Multiple Of 1948	7.6X	246.4X	30.7X	159.0X	

Imagine:

- The median family's income is up 7.6 times,
- But its taxes have risen 246.4 times.

Further, to balance the budget in 1983 would have required a 72.8% increase in the average tax rate of the median income family from 9.2% to 15.9%.

Why balance the budget on the back of the median income family? Why not tax the wealthy?

Any meaningful increases in taxes from personal income would have to come from lower and middle income families, as 90% of all personal taxable income is generated below the taxable income level of $35,000.

(Chart Follows)

CAN THE DEFICIT PROBLEM BE SOLVED WITH INCREASED TAXES?

(1981)

	Taxable Income Bracket	(1) % Of Taxable Income Through Each Bracket	(2) Number Of Days Government Can Be Run If Government Takes All Remaining Income Above The Bracket As Tax
(1)	Up to $ 15,000	63.1%	206 Days
(2)	Up to 20,000	74.9	130
(3)	Up to 25,000	81.9	88
(4)	Up to 30,000	87.2	58
(5)	Up to 35,000	90.4	41
(6)	Up to 40,000	91.9	33
(7)	Up to 50,000	94.4	21
(8)	Up to 75,000	97.1	10
(9)	Up to 100,000	98.0	7
(10)	Up to 150,000	98.6	4

All taxable income not already taxed above $75,000 would run the government only 10 days.

If the Government confiscated 100% of all taxable income beyond the $75,000 tax bracket not already taxed, the additional revenue would be sufficient to run the Government for only 10 days while destroying productive enterprise.

Taxing the rich makes more sense as a campaign slogan than as a serious approach to reducing budget deficits.

That leaves reducing the cost of Government as our best bet to contain spiraling deficits and that was the purpose of PPSS -- cost control.

Implementation of PPSS recommendations would save taxpayers $1,929 billion of the projected deficit in the year 2000 -- from $1,966 billion without PPSS recommendations to $37 billion with the Survey's recommendations.

The cumulative impact of PPSS recommendations out to the year 2000 would be $10.5 trillion, or a savings of $130,000 per taxpayer.

The different recommendations have different degrees of documentation and the savings, as we have emphasized, are estimates of a planning quality rather than a budget quality. In accordance with our mandate from the

President we conducted a survey, not a detailed, in-depth audit. I am, however, personally convinced that without significant changes in Federal spending patterns we will confront ruinous and freedom snuffing deficits in line with those projected.

In addition, it should be noted that our savings estimates were based on:

(a) The use of an assumed 10% inflation rate, and

(b) The use of an assumed 10% interest rate on cash accelerations.

In June 1982 when we initiated PPSS, the rate of inflation was 13.8% and the interest rate was running 14.75%.

Our assumptions at that time were conservative and, unless something is done, may yet prove to be conservative estimates of future inflation and interest rates.

The CBO-GAO analysis assumed inflation rates averaging 5%. Adjusting the PPSS estimates to reflect 5% rather than 10% inflation would reduce three-year savings from $424 billion to $404 billion or by less than 5%.

Our mandate was to examine the numerous operations of the Government as businessmen.

We used the same techniques and methods of analysis that businessmen use when they investigate an acquisition, particularly the acquisition of a failing business. In such cases, we try to identify the changes we would institute to make the business viable. We would try to identify waste that should be eliminated. What inefficiencies would we eliminate? What duplication or overlap would we correct? This was the approach we took in examining the Government. We did not examine major policy issues directly. For example, we did not study the merits of proposals to eliminate the Department of Energy or the Department of Education. We did not feel qualified to form an opinion on military strategy or weapons systems and, therefore, we did not study policies that were the basis of such procedures.

One might ask, as we have been, what experience businessmen have that qualifies them to examine the Federal government. Following is an array of similarities between the operations of the Government and business, with specific opporunities identified to improve operations.

(Chart Follows)

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(1)	Lending Money	$764.6 Bil. loans outstanding	$1,500.0 Bil. loans outstanding	HUD makes only 3 attempts to collect loans versus 24 to 36 tries in the private sector; 41% delinquency rate on current Federal receivables.
(2)	Timberland Management	105 Million acres	347 Million acres	The U.S. Forest Service gave away $235 million of firewood in 1981, 24.5% of total commercial timber harvested.
(3)	Grazing Land Management	163 Million acres	587 Million acres	Federal grazing program collected $15 million in grazing fees while providing $41 million in services recovering only 36.6% of costs.
(4)	Hospital Management	177,000 beds	1,481,000 beds	VA hospital in the Bronx cost $191,300 per bed, about double the $97,400 per bed spent constructing the comparable Duke University Hospital.
(5)	Nursing Home Management	71,000 beds	1,029,000 beds	The VA spends $61,250 per bed to construct nursing homes -- almost 4X the $16,000 per bed cost of a major private sector nursing home operator.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(6)	Automated Data Processing	250,000 ADP employees	2,000,000+ ADP employees	Half the government's computers are so old that manufacturers no longer service them. Additional personnel expenses amount to $600 million annually.
(7)	Inventory Management	$41 Billion (over 99% in DOD)	$806 Billion	Private sector inventory replenishment techniques would save the government $4.5 billion over three years.
(8)	Electric Power	244.0 Billion KWH	2,019.0 Billion KWH	Government subsidized power, sold at one-third market rates, costs industrial users only 2.45¢ per kwh in the Northwest compared to 12.09¢ per kwh paid in San Diego for power generated by the private sector.
(9)	Borrowing Money	$1,381.9 Billion national debt	$420 Billion corporate bonds outstanding	Federal borrowing from the public of $135.0 billion in 1982 was 33.0% of the $408.7 billion raised in U.S. credit markets.
(10)	R&D Funding	$38.5 Billion	$36.1 Billion	Government R&D bureaucracy requires that Oak Ridge researchers consult 114 DOE offices for funding approval.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(11)	Transportation of Persons	$5.2 Billion	$20.4 Billion (non-user operated transportation)	Since 1955 the government has been prohibited from using private sector travel agents and benefitting from their expertise; a 1980 DOD plan for a professional travel service was rejected by Congress. The government did not issue credit cards for travelers until we recommended it.
(12)	Payroll	$61.8 Billion civilian payroll	$1,090.0 Billion payroll	It costs the Army $4.20 to process a payroll check vs. $1.00 average in the private sector.
(13)	Freight Handling	$5 Billion	$30 Billion	The Federal government does not negotiate volume discounts on its enormous freight charges.
(14)	Building Maintenance	2.6 Billion square feet	10+ Billion square feet	The General Services Administration employs 17X as many people and spends almost 14X as much on total management costs as a comparable private sector firm.

WHY BUSINESS CAN ADVISE GOVERNMENT

	Function/ Item	Federal Government	Private Sector	Federal Government Failures Relative to Private Sector
(15)	Pension Benefits	$19.5 Billion Civil Service (CSRS)	$300 Billion	Pension benefits for the CSRS are 3 times those in the private sector.
(16)	Pension Fund Assets	$96.1 Billion Civil Service (CSRS)	$481.1 Billion	CSRS rate of return in 1980 was 7.4% compared to 14% and over for a majority of private sector plans.
(17)	Vehicles Managed	436,338 non-military	155,900,000 motor vehicles privately and commercially owned	Average utilization of Federal vehicles (excluding USPS) is 9,000 miles per year. However, effective utilization, per private rental firms, is considered to be 25,000 miles per year or 2.8 times Federal vehicle utilization. Failure to recondition vehicles prior to resale, as is common in the private sector, lowers the government's resale revenues by $15.8 million over three years.
(18)	Procurement	$159 Billion	$2 Trillion	Lack of competition or control in Federal contracts results in the Pentagon paying $91 for a 3¢ screw, etc., etc.
(19)	Foreign Exchange	$10 Billion	$181 Billion	Hedging against foreign currency changes versus other industrial countries could save the government $438 million over three years.

The 274 recommendations for which CBO-GAO prepared savings estimates are covered in 67 "sets" with an additional 23 "sets" prepared for 122 PPSS recommendations for which GBO-GAO submitted no savings estimates. Of the 90 sets in total, 54 were viewed by them as "Management Proposals" and 36 were viewed by them as "Policy and Program Proposals."

Under their Management Proposals for which CBO-GAO estimated 1985-1987 savings of $21.4 billion, five individual PPSS issues were highlighted as follows:

Savings Estimates
Selected Management Issues
($ Billions)

		1985-1987	
		PPSS	CBO-GAO
(1)	Improve Federal Tax Administration	$11.2	$3.7
(2)	Improve Fed. Workforce Productivity	9.0	0.5
(3)	Increase Federal Contracting-Out	11.3	0.2
(4)	Improve Enforcement of Soc. Sec. Earning Limit	2.0	Not Estimated
(5)	Improve Planning & Resource Alloc. in VA Hospitals	5.0	Not Estimated

In regard to the first set which encompasses three Treasury recommendations entitled, Improve Federal Tax Administration, PPSS estimated savings of $11.2 billion over the 1985-1987 period versus the CBO-GAO estimate of $3.7 billion.

It should be noted that the CBO-GAO estimate shows rapidly increasing revenues from the implementation of the three PPSS Treasury recommendations with three-year CBO-GAO savings of $11.6 billion, 1987-1989.

While CBO-GAO is in substantial agreement with PPSS, they note

- savings estimates are lower because the growth in backlogged tax collections has been largely accomplished through IRS staff increases provided in 1983 appropriations, and
- GAO has recommended alternatives to the PPSS suggested establishment of an appellate tax board which, per GAO, would accomplish PPSS objectives at a lower cost.

We certainly have no objections to achieving PPSS objectives at a lower cost, however, we have not as yet compared the GAO and PPSS proposals. Both of the above comments on the PPSS recommendations are likely to be influenced by the likelihood of increases in the backlog and appeals as a result of the higher tax examination level also recommended by PPSS.

We have prepared responses to all 90 issues covered by the CBO-GAO analysis. In this testimony I have included the 17 issues selected by CBO-GAO for highlighting in their overview, and I will submit the remaining 73 issue responses for the record.

I would like to walk you through the first of these issues, on the next page, and then will not refer to them again.

At the top of the page we present a comparison of the CBO-GAO savings, where available, with the PPSS savings, on a year-by-year basis. Below that is the amount and percent variance between CBO-GAO and PPSS.

This data presentation is followed by a summary of the CBO-GAO position, followed in turn by the PPSS assessment of their position.

Improve Federal Tax Administration
(TREAS-1, TREAS-3, TREAS-7)

	Annual Savings ($ Billions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$0.3	$1.1	$2.3	$3.8	$5.5	$13.0
PPSS Est.	2.1	4.1	5.0	6.6	6.0	23.8
PPSS Above/(Below)						
Amount	$1.8	$3.0	$2.7	$2.8	$0.5	$10.8
Percent	600.0%	272.7%	117.4%	73.7%	9.1%	83.1%

CBO/GAO Comments:

From all its recommended tax collection measures, the commission estimates potential savings of more than $10 billion over three years; some actions not considered here, however, are assumed in that estimate. For the two initiatives CBO has analyzed, its estimate of savings is roughly $13 billion over five years. About $12.5 billion of this gain would result from increased examinations. These CBO projections represent an update of the PPSS amounts and are derived using the same IRS planning model.

The remaining $0.5 billion net revenue gain would result from creation of the new tax board. The CBO estimate represents only one-eighth the PPSS three-year estimate of $4.0 billion. The lower five-year estimate includes $0.18 billion in costs for 61 new small-case judges and for greatly increased IRS tax litigation resources. These costs offset an estimated revenue gain of $0.73 billion. Nearly two-thirds of the estimated revenue gain reflects a speed-up of docketed cases resolved before trial; but contrary to PPSS estimates, no speed-up is assumed for cases resolved before docketing with the court. CBO does not find sufficient evidence to evaluate the PPSS's claimed revenue gain from the undocketed work load at the IRS.

PPSS Response:

While savings concerning increased enforcement are more or less in agreement, it is not clear from CBO's analysis why it discounts the possibility for significant revenue gains from the creation of a decentralized appellate tax board that would free up resources to concentrate on the 8% of cases in the tax court backlog that represent 81% of total dollars.

Further, CBO claims that PPSS estimate of staffing for the new tax board is too high and that the backlog of cases would be eliminated within twelve months. This analysis appears to ignore the likelihood that tax court appeals will increase as a result of higher tax examination levels also recommended by PPSS.

Under Improve Federal Work Force Productivity, PPSS estimated savings of $9.0 billion over the 1985-1987 period versus the CBO-GAO estimate of $469 million. As in the preceding example, the CBO-GAO estimated savings show rapid year-to-year increases so that 1988 projected savings are 2.1 times those of 1987 and 1989 is 3.4 times 1987.

The CBO-GAO analysis covers two separate issues, Personnel-16 and Automated Data Processing-6, with total three-year savings of $17.1 billion (note CBO-GAO analysis computed savings of $15.9 billion from these issues). However, $10.5 billion included in Personnel-16 is a "Potentially Justifiable" issue which has not been included in PPSS savings estimates.

The CBO-GAO analysis emphasizes the problems inherent in estimating savings from productivity improvements. We fully recognize and agree with the tentative nature of productivity projections.

In addition, CBO-GAO estimates are based on a gradual reduction, through attrition of 65,000 positions while PPSS assumed the elimination of approximately 250,000 positions which, per CBO-GAO, is "a diminution that could not be accomplished through attrition".

Nonetheless, PPSS still views the eventual elimination of 250,000 positions over five years as a realistically achievable goal.

Again, we have no strong objections to the CBO-GAO alternative projections which are based on reasonable assumptions concerning timing and implementation of productivity improvements.

(Summary Response Follows)

Improve Federal Work Force Productivity
(PER-16, ADP-6)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ (2)	$ (4)	$ 475	$1,020	$1,625	$ 3,114
PPSS Est.	1,418	3,094	4,504	6,222	6,846	22,084
PPSS Above/(Below)						
Amount	$1,420	$3,098	$4,029	$5,202	$5,221	$18,970
Percent	ND	ND	848.2%	510.0%	321.3%	609.2%

CBO/GAO Comments:

Difficulty arises in evaluating any improvements in labor productivity that could ensue from such organizational and management changes as the PPSS proposes. Furthermore, assumptions about the size of the Federal personnel pool affected, the investment cost of new equipment and training, and the attendant yield in productivity are highly subjective. As a result, the CBO estimates are tentative.

The commission estimates total three-year savings from this plan of $15.9 billion and, going further, five-year savings of fully $32 billion. CBO estimates that because of the time required to accomplish changes the near-term outlay savings amount to only $0.5 billion over three years and $3.1 billion through 1989.

Unlike the PPSS' estimates, CBO's projections do not add productivity gains from automating offices on top of overall gains estimated for the Federal work force at large. This treatment of the office automation recommendations accounts for about 60% of the difference in estimated five-year savings. Further, the CBO estimates assume realization of a slightly lower and more gradual general productivity gain — 4.5% by 1990, versus 5.0% in the first year.

PPSS Response:

PPSS recommendations — PER-16 and ADP-6 -- would result in savings of $17.1 billion over three years, not $15.9 billion. PER-16, savings of $10.5 billion, is listed as a potentially justifiable issue in the Personnel Management Task Force Report and, therefore, not included in total PPSS savings of $424.4 billion because it is so difficult to establish productivity gains. It should be noted, however, that there are many impediments to current productivity gains in the Federal Government, so that a 5% increase in productivity is more than reasonable, assuming steps are taken to manage the Federal work force along the lines that employees are managed in the private sector:

- Employment constraints — personnel ceilings, average grade controls, and hiring and promotion freezes — tend to negate the benefits of good personnel management.

(Continued on next page)

Improve Federal Work Force Productivity (Continued)

- There is little emphasis and leadership from OMB and the Office of Personnel Management (OPM). There is no comprehensive Federal personnel management policy or established procedure for agencies to follow.

- Agencies do not have integrated, common data base management systems. They are faced with the need to develop this structure before they can develop a sound work force planning capability.

- Many managers have developed strong reservations about anything involving work measurement or productivity data. Views are commonly expressed that many agency efforts to develop work measurement data have resulted in very little, if any, benefit.

In net, productivity improvements are necessarily difficult to estimate. However, throughout the PPSS study, possible productivity improvements were noted. In the long-term, these improvements are necessary to reduce rising personnel costs.

Under Step Up Federal Contracting Out for Support Services, PPSS estimated savings of $11.3 billion over the 1985-1987 period versus the CBO-GAO estimate of $155 million.

Differences in estimates appear largely attributable to timing with CBO-GAO noting "In the near term, savings would be much smaller than the estimated long-term amounts because the proposals would have to be implemented gradually and there would be costs associated with transferring functions to the private sector" and the failure of PPSS estimates "to reflect current statutory restrictions on contracting out."

PPSS recommends the elimination of statutory restrictions on contracting out in the VA and DOD and concurs with the GAO position that "effective implementation will not occur unless the Congress legislates a national policy on contracting out."

The analysis goes on to note that "The CBO estimate assumes ... [a] much smaller average savings per conversion to contract." We do not know the CBO assumption in this regard nor the basis for that assumption nor the impact of that assumption on the CBO-GAO alternative savings projection and in this regard we cannot, therefore, compare and contrast that assumption with that of PPSS.

(Summary Response Follows)

Step Up Federal Contracting Out for Support Services
(PER-12, PROC-18, CONG-4, EX-11)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 0	$ 15	$ 140	$ 270	$ 290	$ 715
PPSS Est.	1,704	3,786	5,761	8,294	8,944	28,489
PPSS Above/(Below)						
Amount	$1,704	$3,771	$5,621	$8,024	$8,654	$27,774
Percent	ND	999+	999+	999+	999+	999+

CBO/GAO Comments:

The CBO estimates that, in the long term, savings from contracting out would be $1.1 billion a year--about one-fifth of the PPSS estimate of $5.6 billion. Over three years, the PPSS claims that savings would accumulate to $6.4 billion, its number adjusted for double counting. CBO finds, however, that the commission continues to double count estimates set out in different volumes covering contracting out. Moreover, the PPSS fails to reduce its estimates to reflect current statutory restrictions on contracting out for certain activities in VA and DOD. PPSS estimates also incorporate much larger average saving per conversion to contract than those of CBO. The CBO estimates reflect comparisons, by occupation and region, of federal and private-sector unit labor costs.

In the near term, savings would be much smaller than the estimated long-term amounts because the proposals would have to be implemented gradually and there would be costs associated with transferring functions to the private sector, including payments to laid-off federal workers. CBO estimates annual outlay savings over the five-year period 1985-1989 would accumulate to about $0.7 billion. Additional outlay savings approaching $0.4 billion would occur over the same period if restrictions on contracting out at DOD and the VA were lifted.

CBO estimates show that under an accelerated A-76 program as many as 165,000 federal jobs, mostly blue collar, could shift to private firms. Because of the large DOD work force engaged in performing support services, job shifts in defense agencies would outnumber those in nondefense agencies by nearly three to one. In some instances, according to GAO analysis, increased contracting out might also result in federal agencies obtaining lower-quality services.

Congress has curbed the A-76 program, partly out of concern for preserving national security and the effectiveness of federal programs for veterans.

PPSS Response:

As with other CBO reviews, attention is given primarily to questioning savings rather than to discussing the merits of increased contracting out.

The American people have a right to expect economical performance of

(Continued on following page)

Federal activities. Many activities may be performed either by contract or by Federal employees. The choice between these alternatives should be based on findings as to which method would be more economical. We believe that the private sector can better perform the majority of these activities, primarily because of the competitive element in the marketplace. If a contractor performs poorly, he can be replaced. If a Federal employee performs poorly, there are built in safeguards in the system that make it difficult to replace him/her.

As to the argument that Congress has curbed the A-76 program out of concern for national security, it would be interesting to know how many Federal blue collar workers are employed in security-sensitive areas. The argument is lame at best. Every military base in this country employs some civilians. Why, when the subject turns to blue collar jobs, does national security become the issue?

Under Improve Enforcement of Social Security Earnings Limit PPSS estimated savings of $2.0 billion over the 1985-1987 period versus no savings estimated by CBO-GAO.

The lack of savings in the CBO-GAO reflects the contention that circumstances have changed since the PPSS review and savings are unlikely to occur over the next five years. We are, of course, in no position to comment on the expected results of initiatives undertaken since completion of PPSS. However, when statistically verifiable data are released we will gladly review and comment on the results.

(Summary Response Follows)

Improve Enforcement of Social Security Earnings Limit (SSA-6)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	440	792	767	967	573	3,539
PPSS Above/(Below)						
Amount	$440	$792	$767	$967	$573	$3,539
Percent	-	-	-	-	-	-

CBO/GAO Comments:

The commission estimates three-year outlay savings of $3 billion and $1 billion in revenue gains from its proposals. CBO, however, estimates that little or no savings would result from these recommendations over the 1985-1989 period, although savings could occur in future years. Recent administrative actions in both the retirement (OASI) and disability (DI) programs have greatly reduced the overpayment error rates reported in the PPSS study. In addition, a modernized computer system would be needed to implement these proposals, and SSA is not scheduled to complete a new system until 1988.

Also, by the end of 1984, both the Social Security Administration's enforcement efforts and the posting of earnings records should be up to date, negating the three-year lag in reporting and enforcement that existed when the PPSS conducted its survey.

The determination of any remaining errors and collection of interest on future overpayments can only be implemented once SSA's modernized computer system becomes available.

The increased enforcement requires an "available and quality" automatic data processing system. SSA's system is currently being updated, with a scheduled completion by 1988. The PPSS doubts, however, that SSA will meet this deadline. On the other hand, it stresses the importance of the computer system in order to implement many of the enforcement recommendations.

PPSS Response:

PPSS is in no position to argue that circumstances have changed since its review. The remaining issue is when SSA's new computer will become operational. Since PPSS took a long-term view of savings (as is standard, private sector practice), savings would accrue at some future, indeterminate time.

It is not clear how the previous backlog was resolved. If this situation is a recurring one (especially since PPSS analyses show that the proposed new computer system will not be ready by 1988), PPSS recommendations will once again be applicable. In any event, the current situation does not appear to be resolved by any means. If earnings records are not kept current, the situation PPSS found will recur.

The last specific issue discussed under Management Proposals was Improve Planning and Resource Allocation in VA Hospitals, for which PPSS estimated savings of $5.0 billion over the 1985-1987 period versus no estimate by CBO-GAO.

CBO-GAO notes that PPSS "savings are overstated but do not consider an accurate estimate feasible." As has been repeatedly stated, PPSS estimates are of a planning rather than budget quality and the inability of CBO-GAO to state PPSS savings in budgetary terms in no way impairs the validity of our recommendations.

CBO-GAO also notes an average VA occupancy rate of 81.4% while PPSS recommends actions to increase the VA average occupancy rate to 80% -- i.e., no savings since the occupancy rate is above that recommended.

PPSS analysis showed a VA aggregate operating rate at about 75% of capacity and even this level was inflated by the large number of long-term care patients who occupy acute-care beds. We will gladly review any statistics available which support a long-term sustainable upward trend in VA operating rates.

In addition, the CBO-GAO analysis states that the VA maintains that its current cost factors are equivalent or lower than those in the private sector but has produced no data to support this contention. Again, when produced, we will review the VA cost data.

(Response Summary Follows)

Improve Planning and Resource Allocation in VA Hospitals (HOSP-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Quantified					
PPSS Est.	$783	$1,709	$2,470	$3,360	$3,670	$11,992
PPSS Above/(Below)						
Amount	ND					
Percent						

CBO/GAO Comments:

CBO and GAO expect that the savings are overstated but do not consider an accurate estimate feasible, because the savings would depend upon policy decisions that were not specified by the PPSS and that cannot be predicted.

Of the $4.9 billion in total savings, the PPSS estimated that $1.2 billion would result from an increase in the average occupancy rate of VA hospitals to 80%, the rate considered optimal for private and community hospitals. But according to the latest data available, VA hospitals currently operate at an average occupancy rate of 81.4%. Further, for planning purposes the VA uses a target occupancy rate of 85%. The use of an 80% target rate would not, therefore, result in savings.

If the use of a DRG-based resource allocation model enabled the VA to achieve its 85% target occupancy rate sooner than anticipated under current planning, some savings could be expected.

The PPSS has estimated that $3.6 billion would be saved over three years as a result of the reductions in the average length of stay that would ensue from the use of DRG-based model. The savings would depend on the cost factors assigned to each DRG and on the amount of increase permitted or reduction required in each cost factor over time.

A DRG-based model would make it more expensive to leave a patient requiring only nursing care in an acute-care bed. The VA system includes at least 3,000 excess acute-care beds, which could be converted to nursing-care use at a net five-year savings of $415 million. This would increase the occupancy rate of medical and surgical beds, while providing needed nursing-care beds.

The PPSS proposes that cost factors developed for private sector hospitals be used to bring down VA costs, but concedes that the current cost factors typical of VA hospitals are not known. The VA, on the other hand, maintains that current VA cost factors are equivalent to or lower than those in the private sector. (Relevant data were not available for release, however.) Thus, the potential for savings is uncertain.

The VA has designed a DRG-based resource allocation model that will be utilized to a limited degree in allocating the fiscal year 1985 Medical Care appropriation among VA facilities. The model is not being used to develop budgetary requests, does not yet cover outpatient and extended care, but it is being expanded to do so. The model is neither designed nor intended

(Continued on next page)

to perform a long-range planning function. It would have to be adapted to include all of these areas in order to implement fully the PPSS proposal.

PPSS Response:

The CBO agrees with the PPSS that the use of a DRG-based model should provide incentives for greater efficiency and reduced lengths of stay.

CBO states that VA hospitals operate at an average occupancy rate of 81.4%. We disagree. PPSS found that VA hospitals operate in the aggregate at about 75% capacity, and that this level is inflated by the large number of long-term care patients who occupy acute-care beds which also drives up length of stays (21 days in VA hospitals vs. 7.2 days in private hospitals).

Based on our recommendations, it is anticipated that with an improved planning and resource allocation methodology the VA system medical centers will be provided with an incentive to reduce length of stay as well as to improve their overall efficiency. By reducing lengths of stay to a level comparable to those found in the private sector for medical, surgical and psychiatric services, the VA can reduce its variable costs by the number of patient days reduced times the VA per diem cost. PPSS recommends that VA utilize DRG based system for resource allocation and cost containment.

The 467 DRG groups were derived from the thousands of diagnosis types found in an international coding system by essentially merging those diagnosis that consumed similar amounts of hospital resources. The goals of DRG developers were to:

- Describe groups that are medically meaningful;
- Minimize variations in the lengths of stay found within each group; and
- Provide standards whereby planners can determine whether differences in cost and resource use result from variations in the complexity case mix or to internal operating inefficiencies.

Ultimately, planners can review the performance of those hospitals with similar outputs and market conditions, using DRG's, and treat any variances from the norms inherent in any dRG as differences in efficiency.

Under Policy and Programs Proposals, for which CBO-GAO estimated 1985-1987 savings of $76.7 billion, twelve individual PPSS issues were highlighted, as follows:

Savings Estimates-
Selected Policy and Program Issues
($ Billions)

		(1) 1985-1987 PPSS	(2) 1985-1987 CBO-GAO
(1)	Increase Railroad Retirement Payroll Contributions	$ 0.8	Not Estimated
(2)	Increase Private Participation in Commercial Use of Space	1.7	Not Estimated
(3)	White-Collar Pay Comparability Process	3.4	$(0.03)
(4)	Blue-Collar Pay Comparability Process	1.4	(0.9)
(5)	Modify Federal Employee Health Benefit Program	1.0	(0.5)
(6)	Federal Subsidies	-	11.0
(7)	Reduce Civil Service Retirement Benefits	8.1	6.4
(8)	Reform Military Retirement Pay	6.9	0.5
(9)	Limit Health Care Costs to GNP Growth	-	3.9
(10)	Repeal Davis Bacon Act	3.8	1.5
(11)	Repeal Service Contract Act	2.2	0.1
(12)	Repeal Walsh-Healey Act	2.5	0.8

Under Increase Railroad Retirement Tier 2 Contributions, PPSS estimated savings of $779 million over the 1985-1987 period versus the CBO-GAO analysis which did not estimate savings from implementing PPSS recommendations.

CBO-GAO analyses note that the laws covering Railroad Retirement were changed in August 1983 with passage of the Railroad Retirement Solvency Act. The Act increases taxes along the lines discussed in the PPSS analyses of this issue. There are no increases in revenue projected by CBO-GAO because these increases have already been included in the CBO baseline. Baseline revenues 1984-1986 were increased by $2.0 billion through passage of the Act.

The additional revenues CBO has included in its baseline of $2.0 billion, 1985-1987 support PPSS calculations of $1.4 billion over a three-year period. The difference in the amount of revenues is due to the difference in increased tax rates -- PPSS recommended a 4% increase versus the 5.25% increase enacted for 1986 and thereafter.

I am pleased that Congress has taken action in an area where PPSS felt there was a severe problem and which Congress also felt had to be corrected.

(Summary Response Follows)

Increase Railroad Retirement Tier 2 Contributions
(BANK-II-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Quantified					
PPSS Est.	$132	$273	$374	$499	$530	$1,808
PPSS Above/(Below)						
Amount	$132	$273	$374	$499	$530	$1,808
Percent	ND	ND	ND	ND	ND	ND

CBO/GAO Comments:

CBO sees no revenue gain attributable to the PPSS proposal. Taxes were increased after PPSS' proposal.

PPSS Response:

CBO revenue projections take into account laws already in effect and include, therefore, the effect of P.L. 98-76 in estimates of social insurance contributions. This law, Railroad Retirement Solvency Act, was passed in August 1983, or after PPSS developed its proposal. This law was designed to insure the solvency of the Railroad Retirement trust fund and raises payroll contributions for pension portion of the trust fund -- Tier 2 -- as also recommended by PPSS.

Additionally, PPSS proposed benefit cuts, but CBO has not estimated resulting savings because PPSS did not detail these cuts.

Regarding PPSS recommendations concerning Increase Private Participation in the Commercial Uses of Space, PPSS estimated savings of $1.7 billion over the 1985-1987 period versus the CBO-GAO estimate that no savings would occur, 1985-1987.

At the time of our review, PPSS assumed that a fifth shuttle would be produced and it is still our assumption that a fifth shuttle will be produced. CBO-GAO analyses agree that private sector participation would reduce additional spending requirements at such time as spending for a fifth shuttle commences.

Savings, as estimated by PPSS, are against our baseline projections which, unlike CBO-GAO, include spending for a fifth shuttle.

(Summary Response Follows)

Increase Private Participation in the Commercial Uses of Space
(PRIV-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	No Savings Quantified					
PPSS Est.	$450	$715	$506	$536	$ -	$2,207
PPSS Above/(Below)						
Amount Percent	ND					

CBO/GAO Comments:

Neither the PPSS nor CBO attributes any budgetary savings to these proposals, recognizing that increased private participation could produce possible future economies but not savings relative to the CBO baseline. As funding for a fifth orbiter would increase baseline spending, any private-sector participation would merely reduce these additional spending requirements. No savings would result from commercializing ELV operations, because NASA currently receives full reimbursement for commercial launches.

To secure private financing for the $2.3 billion cost of a fifth shuttle, the federal government would probably have to offer certain inducements to private investors, including tax benefits and flight guarantees. The costs of these provisions would vary according to the future demand for launch capabilities and the details of any agreement. Similar costs could be incurred with an agreement for a commercial ELV program.

PPSS believes that its proposals would reduce costs, thus improving the competitiveness of the United States relative to foreign companies in the commercial uses of space. Its plan would also increase the number of orbiters and capabilities of the shuttle fleet. Commercializing ELV operations might, however, result in additional competition for commercial launches on the space shuttle. The government might be encouraging an alternative that could divert commercial satellites from the shuttle, reduce demand, and result in increased costs for the shuttle program. The ultimate impact would depend on the demand for commercial launches and the terms of the public-private operating agreements.

PPSS Response:

CBO apparently agrees with PPSS.

With regard to the PPSS recommendations under Reform Process For Determining Pay Comparability Adjustments for Federal White-Collar Workers, PPSS estimated savings of $3.5 billion over the 1985-1987 period versus the CBO-GAO estimates of $28 million in costs, 1985-1987.

CBO analyses state that since pay caps have not allowed white-collar employees to receive the increases recommended in the survey no savings would result.

Because CBO's five-year projections assume no catch-up adjustment will be granted, CBO-GAO analyses see no reduction in payroll outlays.

The Government must at some point pay salaries comparable to those in the private sector or lose its employees. If salaries continue to be 20% or more behind those in the private sector, a future adjustment will have to be made. If this adjustment is, in fact, not necessary (because the Government will be able to keep its workforce at "reduced" salaries) the survey has no applicability to Federal white-collar wages.

In the private sector, salaries 20% or more below those paid by competitors would result in a loss of employees. Why then is the government receiving ten applications from qualified respondents for each available position?

PPSS necessarily took a long-term view of Federal operations and the budget as is standard, private sector practice. Assuming future determination of salary increases on the basis of survey results (as in the early-to-mid-1970's), PPSS recommendations would result in reductions in pay comparability increases.

(Summary Response Follows)

Reform Process for Determining Pay Comparability Adjustments for Federal White-Collar Employees

(PER-6)

	Annual Savings ($ Millions)					Cumulative Five-Year
	1985	1986	1987	1988	1989	Savings
CBO/GAO Est.	$ (8)	$ (9)	$ (11)	$ (12)	$ (13)	$ (53)
PPSS Est.	511	1,128	1,717	2,470	2,663	8,489
PPSS Above/(Below)						
Amount	$519	$1,137	$1,728	$2,482	$2,676	$8.542
Percent	ND	ND	ND	ND	ND	ND

CBO/GAO Comments:

As currently measured, pay comparability as of March 1983 would have required an average pay raise for Federal white-collar employees of 21.5%. After the Administration abandoned its initial plan to freeze the October 1983 adjustment, an increase capped at 3.5% — delayed from October to January — was granted.

Because CBO's five-year projections assume no catch-up adjustment will be granted, the PPSS' proposals would not reduce payroll outlays relative to the CBO baseline.

PPSS Response:

PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term short-sightedness on the part of Government is a major factor in cost reduction proposals not being implemented — long-term savings are ignored while short-term costs or nominal short-term savings are emphasized.

PPSS did not recommend that increases equal to full comparability be granted automatically. The issue deals with giving the comparability survey credibility. Further, the issue does not deal only with the pay comparability survey. It also recommends: a) changing the distribution of employees in the pay grade sequence to bring the proportion of higher graded (and higher salaried) employees to lower graded employees more in line with the proportion in the private sector; b) increasing the number of salary grades from the 18 currently in use; and c) setting the pay rates of clerical, technical, and support jobs according to local prevailing rates.

The Government must at some point pay salaries comparable to those in the private sector or lose its employees. Assuming future determination of salary increases on the basis of survey results (as in the early- to mid-1970's), PPSS recommendations would result in reductions in pay comparability increases.

Further, the Task Force recommends that Federal pay be based on the comparability survey only after the distribution of Federal employees is

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made to conform to private sector practices. Page 105 of the Personnel Task Force Report, fourth full paragraph, notes:

> True comparability with the private sector can and should only be achieved when the distribution of individuals throughout the grade sequence, and particularly the concentration of individuals in grades 11 to 15, is brought into line with private sector distribution. (Refer to Issue and Recommendations PER 5, Federal Position Classification System.)

Under Reform Process For Determining Pay Comparability Adjustments For Federal Blue-Collar Workers, PPSS estimated savings of $1.4 billion over the 1985-1987 period versus the CBO-GAO estimate of increased costs of $925 million, 1985-1987.

CBO-GAO analyses indicate that a one-time catch-up adjustment of 2%-4% would be necessary to implement PPSS recommendations and that increased outlays would be necessary to finance expanded survey costs.

The CBO-GAO analysis misses the point of the PPSS argument. The blue-collar wage scale, as you know, has 5 steps, or levels, in each grade. Level 2 is at 100% comparability with the private sector with level 1 at 96% of comparabilty, level 3 at 104%, level 4 at 108%, and level 5 at 112%. The average level of blue-collar employees is at 108% of comparability. Therefore, even when pay is capped, employees receive average salaries greater than those warranted if the average level were at 100% of comparability. The skewed distribution of employees makes it impossible to pay comparable salaries, on average, or less than comparable, "capped" salaries if salary increases are limited.

Further, PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term perspective on the part of the Government is a major factor in the failure to implement cost reduction proposals -- long-term savings are ignored while short-term costs or nominal short-term savings are emphasized. When the Federal Wage Scale (FWS) surveys are used to determine increases and establish comparability with the private sector (as will be necessary if the blue-collar Federal work force is to be maintained), PPSS recommendations will result in savings.

(Summary Response Follows)

Reform Process for Determining Pay Comparability Adjustments for Federal Blue-Collar Employees
(PER-7)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$(190)	$(340)	$ (370)	$ (390)	$ (420)	$(1,710)
PPSS Est.	211	470	711	1,029	1,108	3,529
PPSS Above/(Below)						
Amount	$ 401	$ 810	$1,081	$1,419	$1,528	$ 5,239
Percent	ND	ND	ND	ND	ND	ND

CBO/GAO Comments:

The PPSS proposes to reduce by 6 to 8 percentage points the FWS adjustment necessary to achieve wage comparability. Several studies show that before 1978, FWS employees were overpaid an average of 8% relative to their nonfederal counterparts. Limits on annual wage adjustments since 1978, however, have resulted in pay rates for many FWS employees that lag behind the private sector's. A 1984 catch-up raise of about 10% would be required to achieve comparability as it is now measured. Implementation of the PPSS recommendations would merely reduce the size of the catch-up from 10% to 7%.

The commission's recommendations, which would produce a more accurate measure of comparability for FWS employees, would increase near-term outlays relative to the CBO baseline. The CBO baseline assumes that annual Federal wage increases will keep pace with the private sector's, and that no catch-up adjustment will be awarded to offset the effects of recent limits on annual Federal wage increases.

Though GAO agrees with CBO that immediate budgetary savings would not result, it recommends implementing this proposal.

PPSS Response:

CBO assumes that no catch-up FWS wage adjustment will be made in the near-term. This analyses may be correct, but, again, caters to the short-term outlook in the Government.

PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term short-sightedness on the part of the Government is a major factor in cost reduction proposals not being implemented -- long-term savings are ignored while short-term costs or nominal short-term savings are emphasized. When the FWS surveys are used to implement increases and a catch-up adjustment is implemented (as will be necessary if the blue-collar Federal work force is to be maintained), PPSS recommendations will result in savings.

It should be noted that CBO agrees that PPSS recommendations will result in a more accurate measure of comparability and that GAO supports PPSS recommendations although immediate savings will not result.

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Reform Process for Determining Pay Comparability Adjustments for Federal Blue-Collar Employees (Continued)

Further, if the Government recognized that Federal blue-collar employees received average wages 8% higher than their private sector counterparts, limiting increases is one way to bring the overall payroll or average salaries in line with the private sector. This is an indirect method to achieve PPSS recommendations but achieves the same result -- average Federal blue-collar wages are made equivalent to those in the private sector. However, pay caps create morale problems while PPSS recommendations would place the average Federal blue-collar worker at a salary comparable to his private sector counterpart -- an equitable and obviously fair realignment.

Under Modify the Federal Employees Health Benefit Program, PPSS estimated savings of $984 million over the 1985-1987 period versus additional projected outlays of $525 million in the CBO-GAO analysis.

The CBO-GAO analysis does not dispute the PPSS contention that the Government's total health care costs are higher as a percentage of payroll than in the private sector but speculates on an explanation of the difference by noting:

> "Perhaps because the income, occupation, and demographic characteristics of FEHBP participants differ from those typical of the private sector; that difference is not recognized by the PPSSCC's cost comparison."

The primary difference between private and public participants in health care plans is the relatively higher percentages of annuitants in the latter due to Government provisions allowing an early retirement age and generous survivor eligibility.

In addition, the Government's practice of reimbursing Medicare deductibles contributes to the high FEHBP.

Because Federal employees share the cost of FEHBP is no reason to pay more and get less from the program than is typical in the private sector.

(Summary Response Follows)

Modify the Federal Employees Health Benefits Program (FEHBP) (PER-2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$(130)	$(195)	$(200)	$(195)	$(185)	$ (905)
PPSS Est.	152	334	498	693	771	2,448
PPSS Above/(Below)						
Amount	$ 282	$ 529	$ 698	$ 888	$ 956	$3,353
Percent	ND	ND	ND	ND	ND	ND

CBO/GAO Comments:

The PPSS' report indicates that applying health-care practices used in the private sector to the FEHBP would reduce the program's cost from 6.8% of covered payroll to 5.8%. But the PPSS also observes that health-care practices in the private sector differ from FEHBP practices in three ways: employer contributions average 5.3% of covered payroll, versus the Government's 4.3%; private employers devote a larger portion of their contributions to administrative costs; and private sector plans generally provide more comprehensive health-care insurance that, on average, covers 12% more claims. How do FEHBP benefits and administrative expenses that are lower than the private sector's result in program costs that are one point higher? Perhaps because the income, occupation, and demographic characteristics of FEHBP participants differ from those typical of the private sector; that difference is not recognized by the PPSS' cost comparison.

CBO/GAO do not find convincing evidence that the recommendations are cost effective, especially in view of the difference between Government and private sector contribution rates.

Further, because the Government would begin to contribute up to 100% of certain FEHBP premiums, its costs for current participants would increase more than $1.1 billion through 1989; the level of health-care benefits available to Federal retirees eligible for Medicare would decline; and the program costs subsidized by this group would shift to other FEHBP participants.

PPSS Response:

PPSS concludes that FEHBP costs are higher than comparable private sector costs because of:

1. Adverse selection (employees choosing high benefit plans when they expect high medical costs) facilitated by many plan choices, with an annual open enrollment; plans with widely varying benefits; premiums based solely on the experience of those enrolled; and the exclusion of annuitants by some employee organizations.

2. A high ratio of high cost annuitants and their dependents in FEHBP resulting from the liberal early retirement provision of the Civil Service Retirement Program and generous survivor eligibility.

(Continued on next page)

Modify the Federal Employees Health Benefits Program (FEHBP) (Continued)

3. The difficulty of administering such a complex program and monitoring 168 separate plans with widely varying benefits, claims handling standards, cost containment practices, and financial stability.

Surely these deficiencies contribute more to higher FEHBP costs than the vague CBO/GAO statement that Federal employees differ from those in the private sector.

PPSS also recognized that the Government contributes more than the private sector by confining its savings estimates to the Government's contribution to the FEHBP.

Further, health care benefits for Federal retirees should decline -- there is no reason for FEHBP to reimburse Medicare deductibles. Nor is there any reason for this group to subsidize other FEHBP participants.

Also, removing the 75% Federal contribution ceiling would not increase costs. The aim is to encourage employees to select lower cost plans. Current procedures do not allow carriers to benefit fully from lower premiums. The 75% maximum requires that employees pay a fixed level of premium despite the lower premium in some plans. Eliminating the maximum would encourage employees to shift to low premium health plans.

Under Tax Federal Subsidies (this is the CBO-GAO title for this issue, the primary thrust of PPSS recommendations was not the taxation of subsidies but rather more efficient targeting) PPSS estimated three-year savings of $58.9 billion assuming full implementation; however, no savings are shown for the 1985-1987 period.

CBO-GAO estimates $11 billion in additional revenues, 1985-1987.

CBO-GAO misinterpreted the PPSS recommendations and the basis for the savings calculations. No additional revenues were projected from the taxation of Government subsidies.

Included under the broad category of Transfer Payments are the expenditures for means-tested programs for the poor such as Aid to Families with Dependent Children, Food Stamps and Medicaid. To combat a "Poverty Gap" of $47.2 billion, 1981 Federal, State and Local spending on these programs amounted to $116.7 billion broken out by individual major program as follows:

(Table Follows)

MEANS TESTED ASSISTANCE PROGRAMS VS. THE POVERTY GAP, FY 1981

($ Billions)

		(1)	(2)	(3)
			Assistance As % Of $47.2 Billion Poverty Gap Before Assistance	
	Program	Federal State And Local Assistance	Each Program	Cumulative
(1)	Medicaid	$ 30.4	64.4%	64.4%
(2)	AFDC	14.6	30.9	95.3
(3)	Food Stamps	11.8	25.0	120.3
(4)	Housing Benefits	10.2	21.6	141.9
(5)	Supplemental Security Income	9.3	19.7	161.6
(6)	Job Training	7.6	16.1	177.7
(7)	Student Aid	5.0	10.5	188.2
(8)	Veterans Pensions	3.8	8.1	196.3
(9)	School Lunch	2.3	4.9	201.2
(10)	Other	21.7	46.0	247.2
(11)	Total	$ 116.7	247.2%	

Total means tested assistance outlays 2.5X the poverty gap.

Combined outlays of top three programs exceed poverty gap by 20.3%.

Thus, there is the anomaly of means-tested assistance programs covering the poverty gap 2 1/2 times. This clearly indicates that, insofar as assistance is directed to overcoming poverty, it is being very inefficiently targeted. As shown in the following, $81.5 billion or 69.8% of all means-tested benefits were paid to recipients above the poverty level:

(Table Follows)

DISTRIBUTION OF MEANS TESTED ASSISTANCE PROGRAMS

(1981)

		(1) $ Billions	(2) % Of Total
(1)	Benefits To The Poor	$ 35.2	30.2%
(2)	Benefits To The Non-Poor	81.5	69.8
(3)	Total	$ 116.7	100.0%

More than two-thirds of means tested assistance goes to the non-poor.

DEFINITION OF POOR

Family Size	Poverty Level Income
1	$ 4,620
2	5,917
3	7,250
4	9,287
5	11,007
6	12,449
7	14,110
8	15,655
9+	18,572

PPSS's analysis showed that despite 1981 Federal, State and Local spending of $116.7 billion on these programs, the "poverty gap", estimated at $47.2 billion, was reduced by only $35.2 billion -- a little over 30¢ on the dollar ($35.2 billion ÷ $116.7 billion). An additional $24.8 billion could have brought all households in the U.S. to 125% of the poverty level -- to $11,609 in income for a family of four -- with $44.7 billion left over ($116.7 billion in Federal, State and Local Assistance less $47.2 billion to bring all households to the poverty level and $24.8 billion to further increase all household incomes to 125% of the poverty level).

PPSS recommendations would save an estimated $31.9 billion or 7.1% of 1983 Federal Transfer Payment obligations of $448.6 billion. Within the context of massively well documented statistics on waste and error in these programs, proposed savings are comparatively modest and are unlikely to adversely affect the benefits of any legitimately qualified recipient.

Fundamental to controlling costs and more effectively targeting benefits is closing the "information gap" which has prevented a determination of all the subsidies a particular individual receives.

PPSS recommended issuance of a form, similar to a W-2 issued to wage earners, by each Federal department or agency providing subsidies. A copy of this proposed form would be submitted to the IRS and an individual's total earnings, wages and cash and in kind subsidies, could be determined.

Contrary to the CBO-GAO statement that "the PPSSCC sees improved program coordination as an important secondary advantage" this was the primary intent of our recommendations.

(Summary Response Follows)

Federal Subsidies
(SUB-I-I)

	Annual Savings ($ Billions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$3	$4	$4	$4	$4	$19
PPSS Est.	Savings Not Estimated					

PPSS Above/(Below)

Amount	ND
Percent	

CBO/GAO Comments:

CBO stated that PPSS proposed expanding income tax coverage to the benefits available to individuals and businesses under an array of federal subsidy programs.

PPSS Response:

CBO misinterpreted PPSS' recommendation which is basically intended to reduce or eliminate mistargeting of benefits which result from lack of information and coordination of benefits. PPSS proposal to create a W-2 form is the basis to capture this information and therefore assure benefits are targeted appropriately. Taxation of benefits is not at issue.

Despite the magnitude of the dollars expended on certain targeted individuals, businesses and institutions, adequate information does not exist to determine the degree to which the intended recipients of these subsidy programs are receiving sufficient benefits, or conversely the degree to which benefits are being bestowed upon undeserving recipients to the detriment of all taxpayers. Indeed, there is no way to identify all the subsidies a particular beneficiary receives.

Thus the problem is that there is a large information gap and shortfalls in subsidy management. The large number of programs, decentralization of responsibilities, the lack of coordination among administrative and legislative functions, and the complex, inconsistent and sometimes conflicting program eligibility criteria all contribute to a lack of control.

The main result as PPSS sees it is a mistargeting of benefits. Of the expenditures of $124 billion in 1982 on means-tested programs for the poor only $37 billion of this expenditure reduced the poverty gap. In theory, the $124 billion should have not only brought all households out of poverty, but should have been sufficient to bring all households to 125% of the poverty level and still have $48 billion left over for other purposes such as reducing the Federal deficit.

The PPSS recommendation to utilize a W-2 type form by each Federal agency providing a subsidy to a specific beneficiary, with a copy going to the IRS forms the basis to plug the information gap that exists. The information provided as a result of this process will enable Federal decision-makers to

(Continued on following page)

determine the extent to which targeted outlays are meeting stated objectives, or conversely, benefiting those who do not need subsidies.

Under Reduce Civil Service Retirement Benefits PPSS estimated savings of $8.1 billion for the 1985-1987 period as compared to $6.4 billion for CBO-GAO.

The CBO-GAO analysis contends that the private sector retirement costs as stated by PPSS are understated. Supporting their claim is a March, 1983 study showing the Government's cost of retirement and disability programs at 17.1% of payroll in March 1980 assuming adoption of typical private sector retirement practices. The 17.1% of payroll estimate was prepared by OPM and the specific assumptions in regard to private sector practices are unspecified. The OPM estimate of 17.1% compares to a PPSS estimate of private sector retirement costs of 12% of payroll based on three separate surveys which analyzed retirement costs in more than 1,000 companies.

The current CBO-GAO analysis adjusts the OPM estimate to reflect alternative assumptions to those of OPM and arrives at a cost of 22.8% of payroll for Government retirement costs assuming adoption of typical (but again unspecified) private sector practices.

While we still disagree with the statistic it is gratifying to note that, unlike earlier testimony, CBO-GAO no longer quotes their 22.8% as the private sector retirement cost.

While "typical" costs can be debated endlessly what we do know is that the Government's actual retirement cost is more than 30% of payroll and that is dramatically understated because of the half-trillion unfunded liability of the Civil Service Retirement System.

Many issues developed by PPSS can be argued from a variety of viewpoints, however, to us, one unarguable point is that the Civil Service Retirement System provides its recipients lifetime benefits several times those available in the best private sector plans.

(Summary Response Follows)

Reduce Civil Service Retirement Benefits (FRS-1, 2, 4, 5, 6, and 9)

	Annual Savings ($ Millions)					Cumulative Five-Year
	1985	1986	1987	1988	1989	Savings
CBO/GAO Est.	$1,450	$2,140	$2,840	$3,570	$4,120	$14,120
PPSS Est.	1,236	2,752	4,151	5,866	6,598	20,603
PPSS Above/(Below)						
Amount	$ (214)	$ 612	$1,311	$2,296	$2,478	$ 6,483
Percent	(14.8)%	28.6%	46.2%	64.3%	60.1%	45.9%

CBO/GAO Comments:

Congressional Research Service (CRS) and CBO data indicate far less disparity between Civil Service Retirement System (CSRS) costs and private sector pension costs than the 18% pt. difference claimed by PPSS. GAO questions whether there would be any gap at all if the PPSS analysis had considered laws recently enacted and included the benefits often available from capital accumulation plans in the private sector. Because the PPSS proposals to change CSRS do not include all three types of retirement income found in the private sector (pension plan, capital accumulation plan, and Social Security), GAO does not endorse the PPSS recommendations as being based on representative private sector practices or as sound personnel policy for Federal employees.

Moreover, the CSR system covers law enforcement personnel, firefighters, and air traffic controllers, who have no private sector counterparts, and who, in general, receive higher benefits because of earlier retirement. Further, the comparisons used by the PPSS incorporate the cost of disability on the Federal side but not on the private side.

Many retirees would have their current benefits cut by as much as 45% because of the proposed Social Security offset and elimination of military service credits. Cutting the level of benefits currently received -- an precedented action -- as opposed to reducing the size of future COLAs, would undoubtedly cause hardships for many persons whose retirement budgets are based on predicted levels of income.

Also, since some of the PPSS proposals could be viewed as depriving an individual of a vested property right, they could be questioned in the courts.

PPSS Response:

Several surveys are available which show the average pension cost for the top companies to be on the order of 8% of payroll, as shown below:

(Continued on next page)

Reduce Civil Service Retirement Benefits (Continued)

	Survey	(1) Year of Survey	(2) Companies Surveyed	(3) Pension Plan Cost - % of Payroll (a)
(1)	Greenwich Research Assoc.	1983	1000+	8.0%
(2)	Hay-Huggins	1982	480	7.7
(3)	Johnson & Higgins	1982	188	7.8

(a) Excludes Social Security costs.

These costs include amortization of unfunded private pension plan liabilities which amount to 2% pts. Excluding the 2% pts. unfunded cost, private sector pensions cost 6% of payroll which when added to the 6% cost of Social Security amounts to a 12% cost, compared to 30% for CSRS, a published Government number.

The following summarizes cost comparisons including and excluding the funding of pension plan unfunded liabilities:

Public and Private Sector Comparisons of Employer Retirement Costs as a Percent of Payroll

	Amortization of Unfunded Liabilities:	(1) CSRS	(2) MRS (a)	(3) Private Sector (a)
(1)	Excluded (Normal Cost)	30%	41%	12%
(2)	Included (Total Cost)	85	118	14
		As A Multiple of The Private Sector		
(3)	Excluded	2.5	3.4	
(4)	Included	6.1	8.4	

(a) Both MRS and private sector costs include Social Security.

Excluding the amortization of unfunded liabilities (i.e., normal cost), CSRS and MRS costs are, respectively, 2.5 and 3.4 times as great as in the private sector. The Government's retirement programs are, however, substantially underfunded -- the CSRS and MRS have unfunded liabilities of more than a trillion dollars.

Amortizing these liabilities in a manner consistent with private sector practices increases the Government's total costs as a percent of payroll to 85% and 118% for CSRS and MRS, respectively, or 6 to 8 times the comparable private sector cost.

(Continued on next page)

Reduce Civil Service Retirement Benefits (Continued)

Further, "special provision" CSRS retirees account for only 25,000 of the 1,358,000 retirees on the roll as of September 30, 1982, or 1.8%. this group certainly does not in any substantial way account for the high costs of the CSRS.

Including disability in the Federal calculation is an extension of current Federal practices which include disability provisions in CSRS.

Net net, PPSS included all facets of private sector pension plans in its analyses, including pensions (6% cost), unfunded liabilities (2%), capital accumulation plans (which add only 2% to private sector costs), and Social Security (6%). No matter how CSRS (and MRS) are analyzed, including amortization of unfunded liabilities and capital accumulation plans, these plans are approximately 6 times as expensive as the better private sector pension plans.

Integrating CSRS with Social Security would affect the approximately 638,000 CSRS retirees over 65 (63% of the over 1 million non-disability retirees). The fact that these retirees have been receiving benefits for approximately 10 years (fully indexed to inflation) with no offset, is no reason for this practice to continue. PPSS is of the opinion that COLA benefits are not a property right and that pensions could be reduced by COLA benefits accumulated. Further, Social Security benefits could be reduced as is currently being proposed before Congress.

Regarding legislative changes, to place the legislative impact of the 1981 and 1982 Reconciliation Bills in perspective, which would bring 1980 data up-to-date, the following should be noted:

1. Changes in the 1981 Reconciliation Bill would lower Federal costs from 28.20% of payroll to 27.35% of payroll, according to the Office of Personnel Management, a difference of 0.85%.

2. Changes due to the 1982 Reconciliation Bill are temporary, affecting only FY 1983, FY 1984, and FY 1985.

Other legislation changes were enacted or proposed after PPSS completed its review. PPSS has no objection to alternative means of reducing CSRS costs, as long as these costs are brought in line with private sector costs for both employees and employers.

CBO-GAO comments on PPSS recommendations for Reform of the Military Retirement System are based on force management issues -- could the system be reformed and still meet recruitment and retention objectives.

These same objectives have been raised and responded to repeatedly and are summarized in the following:

(Summary Response Follows)

Reform Military Retirement Pay
(FRS-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ (300)	$ 200	$ 600	$ 800	$1,300	$ 2,600
PPSS Est.	1,039	2,326	3,485	4,885	5,455	17,190
PPSS Above/(Below)						
Amount	$1,339	$2,126	$2,885	$4,085	$4,155	$14,590
Percent	ND	999+	480.8%	510.6%	319.6%	561.2%

CBO/GAO Comments:

The commission proposal risks unanticipated effects because of the sweeping nature of its recommended changes. Incentives to remain in service would be reduced, and, in the absence of compensating changes in other personnel policies, a significant decline in the number of experienced military personnel could be expected. CBO estimates that the decrease in the size of the enlisted career force (defined as those with four or more years' service) would be about 14%, or 126,000 members. Officer reductions would be smaller, at 11%, or 22,000 members. Thus the services would have fewer experienced personnel to operate and maintain sophisticated equipment. Moreover, increases in the number of new entrants would be needed to maintain planned military strengths. Compensation increases would be large relative to current levels and so would represent a major change in military compensation policies. In consequence, there could be greater-than-estimated changes in retention, posing greater threats of adverse effects on the career force and thus the readiness of the military services.

PPSS Response:

The military retirement program was originally intended to provide financial security for personnel disqualified for active duty as a result of advanced age. Today, military retirement is used as a force management tool to achieve a physically vigorous force by separating members at a comparatively early age.

PPSS analyses indicates that military retirement is not a particularly effective method of attracting or retaining qualified personnel in that:

- it does not provide an incentive to serve in demanding or hazardous duties. All members may receive a lifetime retirement income after only 20 years;
- it causes the services to lose many skilled personnel in positions which do not require youth and vigor;
- it does not motivate young members to join the military, i.e., special pay and bonuses are more effective;

(Continued on next page)

Reform Military Retirement Pay (Continued)

- it may be counterproductive in maintaining the quality force the services desire because retirement incentives are too great after reaching retirement eligibility; and, conversely,
- the lack of vesting, prior to 20 years service, creates an arbitrary career length not appropriate for most military positions.

It is difficult to argue that the military retirement system is necessary to ensure that required personnel can be recruited and retained when less than 13% of those entering the service will ever receive retirement benefits.

The above suggests the military's need to reexamine its retirement program which in the past has been calendar-driven. For example, the operation of high technology weaponry is more mentally than physically demanding and the lack of financial incentives to stay in the service beyond 20 years is extremely wasteful of human resources.

In addition, the military retirement system lacks the flexibility to respond to short-term fluctuations in personnel needs since retirement benefits are paid out after service is completed.

The CBO acknowledges that "incentives for longer careers among those completing 20 years of service would be sharply increased." Therefore, the services would have more, not fewer, experienced personnel, and instead of an adverse effect there would be a beneficial effect on both the career force and readiness.

PPSS is proposing reductions to military pensions that are currently at least 6 times as generous as those in the private sector. These reductions need to be compared to private sector pensions for a meaningful analysis -- and even with these reduction, military pension benefits would be 50% greater than those offered by the better private sector pension plans.

Further, CBO/GAO estimates that military pensions would be reduced from 50%-78% do not present the complete picture. Shown below is a comparison of military and civilian benefits:

Comparison of Lifetime (a)
Pension Benefits Including Social Security

	Pre-Retirement Salary	(1) MRS Benefits	(2) Private Sector Pension Plus Social Security	(3) MRS as Multiple of Private Sector
(1)	$25,000	$1,072,000 (b)	$176,000 (b)	6.1X
(2)	50,000	1,679,000 (c)	252,000 (c)	6.7

(a) Total benefits received from retirement to death based upon an actuarially determined life span.

(b) Enlisted person, or equivalent private sector retiree, retiring at age 39 with 20 years of service.

(c) Officer, or equivalent private sector retiree, retiring at age 43 with 20 years of service.

(Continued on next page)

Reform Military Retirement Pay (Continued)

As shown, the immediate unreduced benefit at any age after 20 years of service results in MRS benefits at least 6 times greater than the pension benefits of a private sector employee.

Further, it is unclear that other elements of the total compensation package will need to be adjusted. Military compensation should be adjusted to attract and retain qualified personnel in the most cost-effective manner possible. As manpower demand changes, the compensation plan should be altered to insure that requirements are met. PPSS believes it would be premature to anticipate increases in other elements of the military compensation package until the supply/demand for qualified personnel can be assessed. The primary purpose of the military retirement system should be to provide for the financial security of retired members. Other, more cost-effective elements of the total military compensation package should be employed for force management.

Another recommendation discussed by CBO is Limit Growth In Health Care Costs to GNP Growth. PPSS estimated three-year full implementation savings of $28.9 billion, with no savings over the 1985-1987 period. CBO-GAO estimate savings of $20.9 billion for the 1985-1987 period.

CBO-GAO believes that program changes to limit the growth of Federal health care expenditures would be severe, and that our recommendation represents a "fundamental change in the nature of the Medicare program." CBO further concludes that, "the shift to a system where beneficiaries are treated by a private sector party would represent a major change," and that "if quality assurance programs were not part of the plan, the changes recommended in the PPSS proposal would probably cause a deterioration in the quality of care.

The PPSS recommendation does represent a major change in the way people look at health care. One of the benefits of our proposal is that health care consumers are now put in the position where they will consider costs in seeking treatment. For too long control has been taken away from individuals and given to Government. The person receiving care is in the best position to determine the value of that treatment.

CBO-GAO concludes that shifting the system to the private sector is a "major change." We do not see how. Over 95% of the health care financed by Medicare and Medicaid is currently delivered by the private sector, including voluntary institutions, and state and local health care delivery systems.

To answer the other objection raised by CBO-GAO, that quality of care would deteriorate if quality assurance were not part of the plan, one of the major components of the PPSS recommendation is that insurance plans and direct providers offer services which must meet standards making them equal to or better than the Federal Government's programs.

(Summary Response Follows)

Limit Growth in Health Care Costs to GNP Growth
(MEDIC-I)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ -	$ -	$3,900	$9,500	$15,600	$29,000
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	ND					
Percent						

CBO/GAO Comments:

PPSS proposes limiting the growth in Medicare and Medicaid program costs to the rate of growth of the GNP. This growth limit would determine the Federal money available for Medicare, Medicaid, and other Federal health programs. Based on the total number of Medicare and Medicaid beneficiaries, the funds would be divided on a per capita basis. The funds would be distributed to regions according to the number of beneficiaries within each region and regional variations in health care costs. Based on the established per capita spending rates, private sector and state and local health care systems would submit competitive bids to the Federal Government to provide health care services. The PPSS proposal does not specify exactly what services would be available to beneficiaries, although it would allow consumers to choose plans with varying degrees of coverage and premium levels.

This proposal could save an estimated $3.9 billion over the three-year period 1985-1987. To calculate the savings, CBO assumed Medicare and Medicaid outlays to grow only at the growth rate of nominal GNP after 1984. Savings were estimated by comparing this growth pattern to CBO's baseline projections for this period. The PPSS estimated three-year savings of $28.9 billion for this proposal, presumably using a higher assumed rate of growth for GNP.

Program changes would have to be severe in order to achieve the savings recommended by PPSS. Currently, Medicare's Health Insurance (HI) program is projected to grow at about 11% a year between 1985 and 1989. During this same period, the Supplemental Medical Insurance (SMI) program is projected to increase at 15% a year, and Medicaid at 9% a year. The budgetary savings recommended by the PPSS would limit growth in Medicare and Medicaid to about 8% a year. By 1989, Medicare and Medicaid expenditures would be only 85% of baseline projections. However, the PPSS does not specify the package of benefits that would be available to beneficiaries. Savings of this magnitude could only be achieved by reducing benefits, tightening eligibility requirements, and increasing cost-sharing and premium amounts for beneficiaries. The Medicaid population could not afford to purchase more costly comprehensive coverage, as the PPSS recommends. If the proposed savings were spread equally over the Medicare population who used health care services, the additional expense per individual would be more than $200 in 1985 and $1,200 in 1989.

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Limit Growth in Health Care Costs to GNP Growth (Continued)

PPSS Response:

PPSS savings of $28.1 billion assume 9% inflation per annum. As stated in the Management Office report on Health Care, a variety of plans would be offered at varying costs. We are recommending that the Federal share of costs increase by no more than the growth in GNP. This doesn't limit the amount a beneficiary can contribute toward his/her own medical insurance.

CBO states that the "Medicaid population could not afford to purchase more costly comprehensive coverage, as the PPSSCC recommends." PPSS does not recommend more costly coverage. Medicaid recipients under the PPSS plan would receive $1,900 (Federal and State) for health insurance, which would increase about 9% per annum. Under the current system, according to CBO, Medicaid is projected to grow at a 9% rate 1985-1989. Where is the difference?

Under the current system, recipients of health care have little incentive to consider the costs or necessity of treatment, since they are not paying. PPSS recommendations put control back into the hands of the individual.

CBO-GAO savings from implementing the PPSS recommendation to Repeal or Modify the Davis Bacon Act are $1.5 billion, 1985-1987. This compares to $3.8 billion, 1985-1987 estimated by PPSS.

CBO-GAO are in agreement with the PPSS recommendation to Repeal or Modify the Davis Bacon Act. As CBO points out, Davis Bacon has significantly increased costs to the Federal Government. In addition, the impact of Davis Bacon wage determinations has inflated construction costs and disturbed local wage scales.

(Summary Response Follows)

Repeal or Modify Davis Bacon Act
(LABOR-12, USAF 15, WAGE-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$250	$ 550	$ 720	$ 820	$ 900	$3,240
PPSS Est.	586	1,293	1,890	2,607	2,833	9,209
PPSS Above/(Below)						
Amount	$336	$ 743	$1,170	$1,787	$1,933	$5,969
Percent	134.4%	135.1%	162.5%	217.9%	214.8%	184.2%

CBO/GAO Comments:

CBO states its savings are somewhat lower than those of PPSS because of a Supreme Court ruling made subsequent to the survey which implemented certain of the PPSS recommendations. If these reforms were still enjoined by the court, CBO's estimates of the impact of repeal would be very close to the estimates of the PPSS.

PPSS Response:

PPSS CBO and GAO are all in agreement in this area, with CBO and PPSS savings estimates are very close.

Regarding the PPSS recommendation to Repeal or Modify the Service Contract Act, CBO-GAO estimates savings of $121 million, 1985-1987, compared to savings of $2.2 billion over the 1985-1987 period. The CBO-GAO savings are substantially lower because they assume that only 10% of service contracts are attributable to labor costs. PPSS savings estimates are based on a higher, more realistic estimate of 75% labor cost on service contracts.

GAO is in agreement with PPSS that the Service Contract Act should be repealed, and that savings would be substantially higher than estimated by CBO.

(Summary Response Follows)

Repeal or Modify the Service Contract Act
(USAF-14, LABOR-14, WAGE-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 37	$ 41	$ 43	$ 45	$ 47	$ 213
PPSS Est.	338	752	1,120	1,568	1,747	5,525
PPSS Above/(Below)						
Amount	$301	$711	$1,077	$1,523	$1,700	$5,312
Percent	813.5%	999+	999+	999+	999+	999+

CBO/GAO Comments:

The savings achievable from repeal of the SCA are estimated by first inflating the value of contracts covered by the SCA in fiscal year 1983 by CBO's deflator for federal purchases of services. Based upon a DOL analysis of the impact of modifying SCA regulations, CBO estimates that 10 percent of the dollar volume of contracts subject to the SCA is attributable to labor costs, and that SCA coverage raises labor costs by 4.2 percent over what they would otherwise be.

PPSS Response:

CBO estimated savings are substantially below those of PPSS primarily because CBO uses a Labor Department estimate that only 10% of the value of service contracts are attributable to labor costs. This portion of service contracts attributed to labor costs appears absurdly low and thus generates lower savings estimates. Several other sources of savings estimates documented by PPSS in the Wage Setting Laws special report -- including an estimate by GAO -- are all significantly higher.

PPSS believes it is much more reasonable to assume that the labor cost component of Federal Service contracts is at least 75%. If it were actually as low as 10% for services such as security, sanitation etc., then the Federal government should seriously reevaluate its contracts.

Savings for the last recommendation discussed here, Repeal or Modify the Walsh-Healey Public Contracts Act, are estimated by CBO to be $780 million, 1985-1987, compared to PPSS estimates of $2.5 billion, 1985-1987.

CBO raises no strong objections to the PPSS proposal, and GAO believes that our recommendation has merit. The CBO summary points out that bills to rescind the eight hour overtime requirement were introduced in the 95th, 96th, 97th and 98th Congress. Only one rider ever made it to the Senate floor and it was defeated.

(Summary Response Follows)

Repeal or Modify the Walsh-Healey Public Contracts Act
(LABOR-13, USAF-17, WAGE-2)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ 60	$260	$ 460	$ 530	$ 580	$1,890
PPSS Est.	375	840	1,248	1,755	1,991	6,209
PPSS Above/(Below)						
Amount	$315	$580	$ 788	$1,225	$1,411	$4,319
Percent	525.0%	223.1%	171.3%	231.1%	243.3%	228.5%

CBO/GAO Comments:

Although repealing or amending the act could reduce the cost of Federal contracts, sufficient information does not exist to permit a precise estimate of the budgetary impact. If it is assumed by CBO, however, that productivity increases from this change would reduce new contract costs by 0.5%. Savings are estimated by inflating the value of contracts subject to the Walsh-Healey Act in fiscal year 1983 by CBO's deflator for Federal purchases, and by assuming that 0.5% of this value is saved each year. Because about 90% of Federal contracts subject to Walsh-Healey provisions are for military material and equipment purchases, which take several years to be completed, the outlays for a given year's contract spread out over several years. This causes outlay savings to be relatively small in the initial years and to accumulate over time.

PPSS Response:

It is interesting to note that in this case CBO's savings estimate of 0.5% of contract values is supported as well as many of the PPSS issues it criticized in its report. The PPSS savings estimate represents the average of two economic models which anticipated efficiency gains of between 1.5% and 2.4% resulting from elimination of Walsh-Healey work schedule restrictions.

A major part of the PPSS was an assessment of the impact of our recommendations on the long-term economic outlook. Toward this end the budgetary impact of each PPSS issue was assessed and the resulting savings, assuming a likely implementation schedule, were allocated among budget functions and subfunctions. This data base has been explained and made available to OMB and the Republican Study Committee for whom we have developed alternative cases by including or excluding issues, altering implementation schedules, etc.

We are submitting today with our testimony a computer printout providing details on the budget allocation and the year-to-year impact on the budget of our recommendations.

From this data base,

- in comparison to total PPSS three-year savings of $424.4 billion, savings, 1985-1987, of $345.7 billion are projected.
- in comparison to PPSS three-year savings of $379.0 billion for the 396 recommendations reviewed by CBO-GAO, savings, 1985-1987, of $284.4 billion are projected, and

- in comparison to PPSS three-year savings of $298.4 billion and CBO-GAO estimated 1985-1987 savings of $97.9 billion for the 274 recommendations for which CBO-GAO projected savings, PPSS estimates savings, 1985-1987, of $196.7 billion.

I'd like to take the next several minutes to have Mr. Duncan Bailey explain this computer run.

I appreciate the time and attention this Committee has given to the review of PPSS recommendations. The interest shown by Congress gives us hope that the opportunities offered by PPSS will be fully explored and implemented.

Although PPSS is a commission established by Presidential Executive Order, 73 percent of its recommendations require the approval of Congress before they can be implemented. Congressional support for PPSS cost control efforts is, therefore, critical if the full savings impact is to be realized.

Over the course of the past several months numerous hearings and briefings have been held at which PPSS representatives have discussed their findings and recommendations and responded to questions from members of Congress and their staffs. I and my associates have provided testimony to both the Senate and House Budget Committees, the Senate Finance Committee, the Senate Agriculture Committee, the Senate Committee on Environment and Public Works, and other committees as well. These sessions have in nearly all cases been marked by a willingness to give a fair hearing to the recommendations and to consider how Congress might be involved in their implementation. Coming across clearly was a deep-seated concern with the burgeoning costs of Government and a consequent openness to initiatives that give promise of moderating the problem.

Before concluding I would like to mention the system developed by the Executive Office of the President to review and implement PPSS recommendations. Each agency will evaluate each issue and recommendation, indicating whether the item can be implemented as recommended or whether it, in the judgement of the department, requires modification or has been identified for further study before implementation.

White House review groups have been established to consider department/agency responses. Cabinet members and agency heads as well as PPSS representatives have been invited to participate in all review groups considering matters affecting their departments/agencies.

It is the responsibility of each agency evaluating individual issues and recommendations to present an implementation plan and schedule to the White House Office of Cabinet Affairs, so that progress can be monitored.

Agencies already have accepted and are implementing many of the PPSS recommendations. For example,

- A series of PPSS cash management improvement recommendations are being carried out Government-wide, with estimated savings of $4.7 billion by FY 1985.

- An aggressive Government-wide debt collection program which has been under way for nearly two years was reinforced by PPSS recommendations. Savings targets were established for FY 1983 through FY 1988, with projected total collections of over $20 billion.

- The Administration has initiated action to reduce the number of employees in grades GS/GM 11-15 by 40,000, as recommended by PPSS. Total estimated savings through FY 1988 are $1.4 billion.

- A reduction of over 1,400 employees in the Department of Health and Human Services, as recommended by PPSS, is being made, with an estimated $172 million savings over three years.

I and my associates are ready to provide whatever assistance we can to the Executive and Legislative branches to further the understanding, acceptance and implementation of PPSS recommendations.

In addition to the 17 specific responses to CBO-GAO analyses which were included in the February 28th testimony to the Senate Budget Committee, the following 73 responses were distributed during the testimony -- we provided responses to all 90 of the CBO-GAO analyses.

Revise Military Commissary Operations
(OSD-32, PRIV-5, CONG-1-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$256	$ 377	$ 402	$ 418	$ 434	$1,887
PPSS Est.	537	1,018	1,161	1,536	1,328	5,580
PPSS Above/(Below)						
Amount	$281	$ 641	$ 759	$1,118	$ 894	$3,693
Percent	109.8%	170.0%	188.8%	267.5%	206.0%	195.7%

CBO/GAO Comments:

CBO states that PPSS assumes that closing commissaries would not affect the retention of military personnel, although that might not be the case.

PPSS Response:

PPSS concluded that commissaries are now justified on the bases of criteria which are significantly different from those used to establish the commissary system. The system was established in 1825 when Congress authorized the Army to sell food and other items at cost to officers at isolated frontier posts. In 1866, the commissary system was expanded to include enlisted personnel. It is obvious that what was once a necessity has developed into a benefit. Today, many of these commissaries are in large metropolitan areas, i.e., far from frontier outposts. Further, it was found that the heaviest users of commissaries (59%) were retirees, that is a high usage by people who are not assigned to a military installation. CBO ponders whether the commissary benefit, as part of the total military compensation package, is a cost-effective component of the package in terms of its impact of recruiting or retention. While a point to consider, it is probably less critical in importance in recruitment or retention than military compensation. PPSS examined military compensation and concluded that, in every comparable grade level grouping, the military employee has an advantage over the civilian counterpart. Based on the fact that only 40% of commissary users are active duty personnel and that military employers have higher disposable income levels than their civilian counterparts, there appears to be no reason for a subsidy of food purchases of military employees.

Reduce CHAMPUS Benefits for the Uniform Services (OSD-28)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$200	$266	$301	$327	$359	$1,453
PPSS Est.	129	290	435	622	701	2,177
PPSS Above/(Below)						
Amount	$(71)	$ 24	$134	$295	$342	$ 724
Percent	(35.5)%	9.0%	44.5%	90.2%	95.3%	49.8%

CBO/GAO Comments:

CBO estimates that narrowing CHAMPUS coverage inside catchment areas to emergency and psychiatric care could save $250 million in 1985, and a total of $1,545 million through 1989. Three-year savings ($0.8 billion) are roughly one-third smaller than those of the commission ($1.2 billion), largely because of differing assumptions about the cost of the workload increases caused by this proposal. The PPSS assumed that military hospitals and clinics could absorb the added workload without any additional cost. But these additional patients could increase DOD's overall inpatient workload by about 17%, and its outpatient workload by about 8%. The increases for hospitals and clinics in catchment areas with large populations might be substantially higher. An early study by DOD of comparable changes in medical care workloads assumed that each new patient would cost DOD at least one-half of its average cost for current patients. CBO used this relatively conservative assumption.

Under CHAMPUS, civilians must share up to 25% of the costs of their care, in military facilities they would have to pay not more than $6.80 a day for hospital care and nothing for outpatient care.

But by adding to military workloads, such use could strain those hospitals and clinics already operating near capacity and cause bothersome waiting times.

Even facilities that appear to be underused over the course of a year could have problems absorbing CHAMPUS' entire nonpsychiatric and nonemergency workload. For one thing, the demand for medical care is much heavier at some times of the year than at others; seemingly underused facilities could have trouble meeting surges in demand. More important, all military hospitals and clinics operate under a central assignment system for military personnel that causes staffing to fluctuate. Thus they cannot be certain that the specialists needed for a particular procedure will all be together at the same time. Moreover, the military hospital system overall may not always have the proper mix of physician specialties and support staff or enough adequate facilities and equipment to meet all the demands placed on it. Thus achieving savings under this option would risk some degradation, the quality and timeliness of health care.

The Secretary of Defense could restrict CHAMPUS benefits to people living outside military catchment areas; the services could then only issue NACs for psychiatric and emergency care. DOD has already begun to restrict

(Continued on following page)

use of CHAMPUS by directing the military services to issue 5% fewer NACs in 1983 than they did in 1982. Each service decides how to distribute its quota of NACs among its hospitals.

PPSS Response:

The CBO argument centers on one factor: Increases in military hospital workload could strain hospital capacity thereby reducing the quality of care. We disagree. The military direct care system and the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) should be closely tied together in order to make efficient use of DOD's health care dollars, but they are not well coordinated. In fact, those incentives which are in place strike in the wrong direction.

On the whole, the direct care hospitals are seriously underutilized (operating at about 60% capacity), with average occupancy levels far below those considered marginal for civilian hospitals. While direct care systems are budgeted within the services and CHAMPUS is budgeted by the Office of the Secretary of Defense (OSD), financial incentives cause the direct care facilities to push prospective patients to CHAMPUS.

Recover Medical Care Costs from Private Health Insurers
(HOSP-11)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$196	$250	$273	$293	$313	$1,325
PPSS Est.	140	315	471	673	759	2,358
PPSS Above/(Below)						
Amount	$(56)	$65	$198	$380	$446	$1,033
Percent	(28.6)%	26.0%	72.5%	129.7%	142.5%	78.0%

CBO/GAO Comments:

CBO savings for the first three years ($0.8 billion) are about 30% smaller than the PPSS' estimated savings ($1.2 billion) because of differing assumptions on two key points: the percent of nonactive-duty patients with coverage and the percent of costs that insurers would pay.

CBO assumes that only 15% of non-active patients have outside coverage; PPSS assumed 23% have outside coverage. The commission assumed that insurers would pay 80% of covered expenses for inpatients and outpatients, because many policies include coinsurance. But the PPSS overlooked the widespread inclusion of deductibles in insurance policies, which usually require patients to incur over $100 in expenses before being reimbursed. Moreover, policies generally do not cover some outpatients services, such as dental care. CBO-GAO assumed that because of these features insurers would only pay 40% of covered expenses for outpatients. CBO adds that its estimate of 40% coverage could be too high due to high unemployment and the fact that some families with health insurance only turn to military medical facilities when they have exhausted private coverage. No data is available to determine the impact of these two factors.

To recover medical costs from private insurers, Congress would have to pass legislation to prevent insurers from excluding the Federal Government from reimbursement, which is part of the DOD legislative package for 1985. Congress could, however, exempt companies from paying indirect patient care costs such as retirement pay, depreciation, administration. Unless Congress requires insurers to cover overall average costs, DOD would have to revise its cost accounting system, as the present system only reports overall costs of delivery services to all patients.

PPSS Response:

The CBO comments on issue HOSP-11 concentrate on attacking our savings estimates. There is no indication of whether CBO agrees or disagrees with the idea.

CBO also speculates on what Congress can do to reduce the impact of this recommendation -- i.e., exempt insurers from paying indirect costs, which would require DOD to revise its accounting system.

(Continued on following page)

Recover Medical Care Costs from Private Health Insurers (Continued)

The PPSS assumption that 23% of non-active duty patients have private medical insurance is also questioned. Our assumption was based on a small sampling at eleven military hospitals. The sampling was used because information obtained from a 2977 GAO report indicated that 35% of non-active duty patients have private insurances.

PPSS considered 35% an overly optimistic number, and used the sampling to reduce it to 23%. It is interesting that CBO considers 15%, based on a 1978 study, optimistic, while GAO cites 35% in a 1977 study.

Remove Restrictions on Stockpile Silver Sales

(CONG-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 40	$ 40	$ 40	$ 40	$ 40	$ 200
PPSS Est.	257	423	347	394	140	1,561
PPSS Above/(Below)						
Amount	$217	$383	$307	$354	$100	$1,361
Percent	542.5%	957.5%	767.5%	885.0%	250.0%	680.5%

CBO/GAO Comments:

Any savings to be realized from the sale of surplus silver would have to assume that the proceeds from the sale are either returned to the general fund of the U.S. Treasury or are used to offset the costs of stockpile acquisitions that would otherwise be supported from new appropriated funds. Since neither assumption can be supported, CBO-GAO estimate cumulative five-year savings through 1989 to be zero.

CBO also questions the assumption that all 105.1 million surplus ounces can be sold in one year. Disposing of 105.1 million troy ounces in one year would result in a short-term disruption of the silver market, including the possible collapse of U.S. silver market prices and drastically reduced sale proceeds to the Federal Government.

PPSS Response:

PPSS also recognizes the fact that a one-year sale would be unlikely, and for budget purposes and in the DRI model the above year by year figures have been used. Insofar as the sale resulting in no savings to the Government, PPSS would like to believe that in light of the current budget crisis exceptions could be made -- here as well as in the sale of excess Interior Department land -- so that such sales could be used to reduce the amount of Government borrowing necessary to finance the deficit.

Revise DOD Contract Financing Procedures
(ASSET-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$1,300	$4,200	$ 500	-	$ 200	$ 6,200
PPSS Est.	3,151	5,715	5,043	$6,160	1,976	22,045
PPSS Above/(Below)						
Amount	$1,851	$1,515	$4,543	$6,160	$1,776	$15,845
Percent	42.4%	36.1%	908.6%	100.0%	888.0%	255.6%

CBO/GAO Comments:

CBO noted that PPSS recommendations to reduce defense contract progress payments to levels in effect prior to February 1981 would remove something of value from defense contractors. CBO continued that, depending on many factors, contractors would probably react by charging higher prices or changing other terms and conditions to compensate for their loss. CBO claims the contractor's negotiated profit and/or fee rates may increase and offset some or all of the estimated savings. CBO also asserts that PPSS claimed savings would be completely offset by contract completion.

PPSS Response:

During 1981, when progress payments for defense contractors were increased from 80% and 85% to 90% and 95% for large and small companies, respectively, the prime interest rates averaged 18.87% and inflation, measured by the GNP deflator, increased 9.4%. These economic realities were the reason behind the acceleration of progress payments to contractors. In 1983, the economic realities were as follows: the prime rate averaged 10.80% and inflation was 4.3%. If the increase in these indicators was the reason behind the acceleration of progress payments, then it would seem appropriate that their sharply reduced levels of two years later is reason for a deceleration in progress payments. This is an example that once the Government gives something away it is almost impossible for it to take it back when conditions change.

PPSS understands that these funds will still have to be paid to contractors at a later date. However, PPSS also recognizes that the Government is funding annual deficits of $200 billion at 10.75% interest rates. Any way that the current need to borrow can be reduced is a real savings now.

Increased Use of Multiyear Procurement (MYP)
(OSD-23, USAF-19, NAVY-2, PROC-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$629	$1,456	$2,244	$3,218	$3,641	$11,188
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The further application of MYP might produce additional savings, but CBO cannot identify additional weapons systems for application of MYP, nor did the commission identify any such systems. This information is needed to estimate savings, because MYP does not always produce savings and, in fact, MYP is undesirable for programs characterized by uncertainty about the final design configuration or uncertainty about the total number of required weapons.

The PPSS recommended MYP in four proposals and claimed a total savings of $13.3 billion. After eliminating $6.1 billion because of double counting, the total commission savings should be no more than $7.2 billion. The commission's savings estimate was obtained by applying a general percentage (7.5%) to the DOD procurement budget. The use of this percentage was not justified in the PPSS report.

Recent GAO studies on defense major weapons system acquisitions suggest that MYP is already overused and its benefits substantially less than projected.

PPSS Response:

Unduplicated savings from these 4 issues combined is $3.4 billion over three years, less than half the $7.2 billion presented in the CBO/GAO analysis. Potential savings for MYP in procuring major weapon systems was estimated by OSD, Office of the Assistant Secretary - Comptroller. It identified some 31 programs for the period FY 1984 through FY 1988 which, in its opinion, met the criteria for MYP. Its estimate on these programs was an average annual savings of $1.573 billion in "then year" dollars.

Excluding weapons systems, there is additional opportunity for MYP in DOD and on the civilian side. Use of MYP in these areas could reduce costs by $242 million per year, based on prior studies, contractor quotes, and estimates from contract specialists.

To summarize the potential cost savings that could amount to $1.8 billion annually by the third year:

(Continued on next page)

Increased Use of Multiyear Procurement (Continued)

($ millions)

	Year 1	Year 2	Year 3	Total
Weapons systems	$450	$ 935	$1,573	$2,958
Other systems	50	165	242	457
Totals	$500	$1,100	$1,815	$3,415

Further, issue USAF-19, Multiyear Procurement, cautions that a risk/benefit analysis needs to be undertaken in deciding which programs are eligible for MYP and lists 6 specific criteria to be used.

Establish and Maintain Efficient Production Rates
(OSD-21, OSD-23, NAVY-1, ARMY 11)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$781	$1,824	$2,832	$4,080	$4,632	$14,149

PPSS Above/(Below)

Amount	NA
Percent	

CBO/GAO Comments:

The PPSS estimates annual savings of $18.3 billion for the first three years after implementation of these proposals. These savings assume procurement cost reductions of 2% to 10% without addressing which programs would be involved. Although it is not entirely clear, many of the proposals appear to duplicate each other or overlap (i.e., DOD-wide savings estimates would include Army and Navy estimates).

If the PPSS is proposing only to avoid future decisions to stretchout weapons programs, then the PPSS proposal only avoids potential future cost growth that is not in the current baseline and, therefore, CBO cannot predict savings resulting from these proposals. Over the long term, if these proposals were applied to new systems now in development, DOD might avoid cost growth above the current DOD baseline.

If the current production plans of the administration were adjusted to the economic production level for all systems, there would be a very substantial increase in production levels for at least three years, yielding higher annual costs for fiscal years 1985-1987. Moreover, it is not always practical to produce all weapons systems at the most economical production rate because of the limited size of the defense budget.

Despite the above objections, CBO and GAO believe that implementation of the proposals might lead to more efficient production rates and lower total costs for major weapon systems over the longer term.

PPSS Response:

CBO, in an analysis of the DOD Selected Acquisition Report (SAR) of December 31, 1981, noted the following increases in costs for selected programs:

System	% Increase	% Decline in Buy Size	Impact on 1983 Budget ($ Millions)
HAM Missile	152%	74%	$ 97
AH-64 Helicopter	73	38	348
Pershing II Missile	120	32	272

(Continued on next page)

Establish and Maintain Efficient Production Rates (Continued)

Given these cost overruns and cost increases for 1983 alone, something must be done to stabilize the number and cost of weapons systems acquired.

CBO and GAO agree than the proposals have merit and might lead to long-term cost savings.

PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term short-sightedness on the part of the Government is a major factor in cost reduction proposals not being implemented -- long-term savings are ignored while short-term costs or nominal short-term savings are emphasized.

Concerning limits to defense spending, if long-term costs decrease, on a cost/benefit analysis, current increased funding for any program is not material. This is typical of the Government's attitude that mainly focuses on short-term costs, even though increased spending now could lead to long-term savings.

Increase Use of Common Parts and Standards
(OSD-20)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$1,416	$3,308	$5,138	$7,402	$8,402	$25,666

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

The commission's estimated savings of $7.3 billion over three years assumes a 4.8% across-the-board reduction in all weapon systems costs, offset by annual implementation costs of approximately $100 million. Neither the PPSS report nor the PPSS staff has provided data with which to assess the validity of the PPSS assertion that the 4.8% reduction is possible.

GAO supports the PPSS recommendation and feels it complements past GAO work. However, DOD believes that further use of commercial parts and standards might decrease military readiness. In DOD's view, MILSPECS promote standardized quality for parts and components, encourage emerging technologies, and ensure that each new weapon will meet the perceived threat for which it was designed.

PPSS Response:

GAO agrees with the PPSS recommendations, and has found that DOD could do much more to implement commonality of components and subsystems. Further, PPSS noted that it is not MILSPECS that cause increased costs, but the fact that they are indiscriminately applied. The only question is whether the savings estimates are substantiated. The basis for the savings are shown below:

I. Increased use of common subsystems among services

	($ Billions)
o Improved design alternatives. Estimated 2% saving, based on a 1982 Boeing Study.	$1.4020
o Joint service development of multiple use components and subsystems. Estimated 1% saving, based on Air Force estimate.	0.7010
o Broader application of existing DOD equipment inventories. Estimated 0.3% saving, based on an OSD Task Force estimate.	0.2103
TOTAL	$2.3133

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Increase Use of Common Parts and Standards (Continued)

II. Decreased use of military specifications

	($ Billions)
o Elimination of requirement for contractors to comply with MILSPECS. Estimated 1% saving, based on conservative OSD Task Force estimate.	$0.7010
o Increased use of commercial hardware and equipment, and industry standards rather than MILSPEC requirements. Estimated 0.5% saving, based on research by the Aerospace Industries Association.	0.3505
TOTAL	$1.0515
TOTAL (I & II)	$3.3648

Increase Dual Sourcing of Weapons Programs
(NAVY-3, USAF-20)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$730	$1,706	$2,650	$3,818	$4,334	$13,238

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

For certain types of procurement, dual-sourcing might, in some cases, reduce total procurement costs. DOD currently employs dual-sourcing on some programs, but there is insufficient data on actual results to enable a properly informed conclusion on savings potential. While dual-sourcing of major weapons systems might potentially save money, its cost effectiveness is particularly questionable if production quantities and rates are small, or the weapons program is highly complex, or the production program has only a short time for completion. Because the outcome of these efforts to encourage further dual-sourcing cannot be predicted, it is not possible to estimate the budgetary impact of the PPSS proposals.

Although dual-sourcing might save money over the total production period, it would require additional funding in the near-term. In addition, reduced annual levels of production for each of two producers might drive up unit production costs compared to the costs of a single producer with a higher production level. The thrust of the commission's recommendations is to require DOD to identify more dual-sourcing candidates in a systematic way. The commission, however, did not identify any specific systems for dual-sourcing.

PPSS Response:

The Navy Task Force Report quoting a former Deputy Assistant of Defense for Acquisitions notes that in theory single suppliers should be able to provide lower per unit costs; however, in practice, prices almost always rise as a result of sole-source conditions. Further, the Navy Task Force Report notes that the decision to use two production sources is very complex and can be made only on a case-by-case basis.

Although initial costs may be higher, PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term short-sightedness on the part of the Government is a major factor in cost reduction proposals not being implemented -- long-term savings are ignored while short-term costs or nominal short-term savings are emphasized.

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Increase Dual Sourcing of Weapons Programs (Continued)

PPSS savings estimates are conservative and based on prior studies and available data. Regarding the Navy, PPSS used a study by Analytic Sciences Corp., as well as data from 11 other studies. General assumptions were used, rather than data for specific programs, because such data were not available in sufficient quantity. Twelve prior studies show dual-sourcing savings of 12%-52% of selected programs. PPSS used a 10% savings estimate on 10% of the $34 billion Navy budget for major programs -- a conservative estimate of $340 million annually.

The Air Force Task Force also used 12 prior studies as the basis for its calculation saving 10%, 15%, and 20% in years 1, 2, and 3, respectively, of system costs which could be dual-sourced. These systems, and the estimate of the percent of expenditures which can be dual-sourced, follow: missiles (30%), electronics (10%), munitions (50%), and aircraft (6%). It should be noted that missiles and aircraft, which represent 82% of spending in these categories, have dual-sourcing possibilities of 30% and 6%, respectively, hardly exaggerated estimates.

Improve Army Weapon Systems Acquisition
(ARMY-10)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$99	$231	$359	$517	$587	$1,793
PPSS Above/(Below)						
Amount Percent	NA					

CBO/GAO Comments:

While CBO believes that improving the Army procurement management process could lead to some savings in the future, these proposals are too general to estimate savings. Furthermore, CBO and GAO were unable to weigh the benefits of separating procurement and production within the Army. This would call for a major reorganization, with much attendant disruption, but the commission has not provided the necessary evidence that the benefits would outweigh the problems caused.

The commission estimated the savings to be $2.6 billion over three years, after full implementation of the proposals. This savings estimate is based on the assumption that there will be substantial future cost growth for major weapons systems. This projection reflects cost growth above that in the CBO baseline and DOD budget. Thus, even if the commission estimates are correct, there would be no savings compared to the baseline.

The level of cost growth is based on historical data and assumes DOD has taken no action to reduce the rate of unanticipated cost growth. Recent CBO analysis has shown that DOD has substantially reduced the rate of the unanticipated cost growth for weapons included in last year's Selected Acquisition Reports when compared to the previous five years.

It is most significant that 72% of the savings projected by the commission are actually achieved by a reduction in the scope of programs -- buying less than planned -- not by efficiencies. The PPSS did not identify which Army weapons systems it proposes to eliminate.

PPSS Response:

The CBO/GAO comments are misleading. PPSS based its analysis on historical spending patterns, surely a better indication of future cost growth than the CBO baseline and DOD budget which are near-term and are budget estimates which, as indicated in Selected Acquisition Reports, have been frequently low in measuring total system costs. Further, PPSS assumed that only half the 44% growth over baseline estimates that historically occurred would occur in the future due to planned or proposed Army improvements.

Further, CBO/GAO miss the essential element of the PPSS recommendation to reduce the scope of programs. The idea is to prioritize needs and wants (as is done in the private sector) because of budget limitations. The Army is already forced to buy less than planned because of

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Improve Army Weapon Systems Acquisition (Continued)

program stretchouts and increased costs. "Reducing the scope of programs" means limiting the array of programs available to what is economically realistic — a management proposal to increase the efficiency of planning. It is the Army's responsibility to decide which weapons systems can be eliminated.

The separation between procurement and production is necessary because these two areas address different problems and opportunities. To function effectively, they require different sets of skills. The Army's Cost Discipline Advisory Committee (CDAC) noted that major problems have occurred in Army weapons systems as they went from development to production. Further, CDAC noted that "the transition to production needs re-examination because of the present reliance on development personnel who do not have sufficient background with production problems." The PPSS recommendation addresses this issue directly.

Improve Procurement Process Management
(PROC-6, PROC-7, PROC-8, PROC 9)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$868	$2,027	$3,147	$4,533	$5,147	$15,722
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The PPSS savings estimates were based on the assumption that these actions will reduce costs for all major procurement programs by approximately 7%. No basis was provided for these assumptions. These savings are phased in over a three-year period.

Program impact is difficult to assess because of the uncertainty surrounding the success of these initiatives and because some of the proposals are already being used.

GAO agrees with the commission that improvements are needed in DOD's weapons acquisition planning process. Although DOD has the authority to improve this, GAO found that the Office of the Secretary of Defense has not yet published criteria for developing on the development of system acquisition strategies. The issue of effective program management is a vital one and the related recommendations have much merit.

PPSS Response:

GAO agrees with the PPSS recommendations, so the question is whether PPSS savings will be achieved or not. The approach used by PPSS to estimate potential cost savings was to evaluate the observed performance of DOD and the Services in the acquisition process compared with the performance of the private sector in the implementation of major capital investments for new facilities. Although the approach is largely judgmental, it has proved to be an effective tool and is used in the private sector for comparing/evaluating available alternatives. In making this comparison, the differences in environments were recognized, and the estimated potential savings are those which PPSS believes are achievable within the existing Government environment.

Further, PPSS savings are not of a budget quality but, necessarily, estimates -- PPSS was a survey, not an in-depth audit.

Establish a Procurement Audit Service for Weapons Acquisition
(OSD-37)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.			Savings Not Estimated			
PPSS Est.	$217	$507	$787	$1,133	$1,287	$3,931
PPSS Above/(Below)						
Amount			NA			
Percent						

CBO/GAO Comments:

CBO-GAO agree that increased audit attention could lead to acquisition improvements and savings to the Government. There is, however, no valid method to estimate or identify what impact this increased effort would have on costs now or in the future.

The commission savings estimate is based on an assumption that increasing audits of procurement activities would yield annual cost avoidances and efficiency improvements of $500 million or more each year.

PPSS Response:

With military procurement outlays budgeted at $77.6 billion in 1985, a $500 million, or 0.6%, savings through more effective audit seems conservative, especially in light of well-publicized recent examples of massive abuse in military procurement contracts. However, PPSS would certainly welcome a more knowledgeable estimate by CBO, which as yet has not been forthcoming.

Modernize Contractor's Facilities and Enhance Productivity
(NAVY-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$178	$415	$645	$929	$1,055	$3,222

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

The commission proposes that the secretary should strongly endorse and support DOD's Industrial Modernization Incentives Program (IMIP), which is intended to encourage contractors to invest in productivity-enhancing capital improvements. The IMIP funds on-site analyses of factory improvements and supplements contractor investment to implement worthwhile programs.

CBO cannot estimate that savings will accrue from the commission proposals. The commission does not identify any Navy programs that would benefit from MIP nor does it identify what would be purchased with additional funds. The commission recommends only that the secretary support proposals to encourage contractors to invest in productivity-enhancing capital improvements. Since the secretary cannot independently change cost accounting standards, MIP funding, or accelerated depreciation tax rules, implementation of these recommendations would have no direct impact on budget authority and outlays.

GAO does not endorse PPSS recommendation because they are based on programs still being tested.

PPSS Response:

Both CBO and GAO appear to be far more pessimistic concerning IMIP than were other sources consulted by PPSS. For example, Navy IMIP-type programs with Grumman and Northrup are projected to save hundreds of millions over the course of the contracts. Even so, information gathered by the Navy Task Force indicated that the Navy Department was lagging behind the other services in regard to implementing this program. During 1977 through 1981, the Navy contractor incentive programs yielded benefit/cost ratios of 21.8 to 1. Thus, the 5 to 1 ratio used by the Task Force to estimate savings would appear reasonable.

Consolidate or Close Bases and/or Base Activities (OSD-4, OSD-8, OSD-9)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$938	$2,062	$2,980	$4,232	$4,631	$14,843
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO states that the commission proposal on base closures (OSD-9) provides no details regarding its estimated three-year savings of $2.7 billion. In addition, CBO states that the only significant change to current practices would be to have an independent commission recommend base realignments or closures rather than the Office of the Secretary of Defense and the services. Regarding OSD-4, CBO stated that there is also no basis for estimating savings from consolidation of depot level maintenance facilities and that GAO material used by PPSS was not felt by GAO "to be considered of budget quality." CBO stated that a DRIS (Defense Retail Interservice Support) program (OSD-8) was already underway, and savings of nearly $30 million annually are included in the baseline compared to PPSS savings of $993 million over three years.

PPSS Response:

DOD maintains 5,600 separate installations worldwide, of which 4,000 are in the U.S. Only approximately 312 U.S. installations are considered to be significant. In addition, worldwide military and civilian employee population has declined from about five million to three million. It was obviously clear to PPSS that the major obstacle to closing or realigning military bases was Congressional legislation which prevented DOD from closing bases it had suggested. The PPSS savings for base closures are taken from an OMB study which CBO stated was unavailable to them for their review. PPSS did not have the time or resources to perform a detailed review of each of the thousands of DOD installations. PPSS used the OMB study and conservatively assumed the lower end of OMB's $2 to $5 billion annual savings would be gradually implemented over a five-year period, resulting in $2.7 billion savings over three years. As has been pointed out repeatedly, the savings estimated by PPSS are of a planning nature and not of a budget nature. After a thorough review by an independent commission, bases for closing or realignment can be identified. Once the specific locations are deemed likely for closing, etc., the budgetary impact can be calculated. The savings as estimated by PPSS show the potential value of closing these bases once political opposition to obvious waste can be overcome.

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Consolidate or Close Bases and/or Base Activities (Continued)

There are opportunities for savings from consolidating depot-level maintenance facilities. PPSS potential savings are based on DOD data for annual savings from consolidation of depot-level maintenance at approximately $50 million. In addition, a one-time savings of $300 to $400 million is possible due to a reduction in specialized maintenance equipment that would not be needed if maintenance functions were consolidated. These savings are of a planning nature and not meant to be budget quality. It is not, however, clear if Congressional supporting agencies estimates should not be assumed "to be considered of budget quality."

Regarding OSD-8, Consolidation of Base Support Operations (consolidation of base support operations across service lines), PPSS stated that savings from an effective DRIS program are difficult to estimate with precision. The GAO stated that a savings goal of $108-$540 million per year from consolidation of base support activities was reasonable. Due to time constraints, PPSS was unable to better quantify potential savings. The lower end of the GAO savings range represent only 0.5% of total base operations costs. Numerous previous studies have indicated that savings opportunities exist, and it seemed reasonable that the GAO estimate was feasible and conservative. Accordingly, these estimates of savings are considered to be of a planning nature and not budget quality figures.

Improve Automated Inventory Management
(PROC-11, ADP-16, OSD-2))

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Not Applicable					
PPSS Est.	$1,042	$1,989	$2,177	$2,884	$2,217	$10,309
PPSS Above/(Below)						
Amount Percent	NA					

CBO/GAO Comments:

CBO cannot estimate the investment costs and savings associated with the ADP modernization proposal because the commission does not provide specific details of the program. The commission estimates that this proposal would save $13-$14 billion over three years. The savings allegedly would result from inventory reductions and other management improvements. PPSS staff have indicated, however, that this estimate is overstated by at least $6 billion because of double counting. The report calls for DOD to invest $1.4 billion over four years in new inventory management systems to accomplish these savings. Neither the reports nor the staff of the PPSS have identified what goods or services would be purchased for $1.4 billion.

No data exists with which to judge whether or not there would be any savings at all as a result of the investment proposed by the commission. Moreover, any savings might occur more slowly than projected by the commission. It would take at least four years to design the system, select and deliver the hardware, and prepare the software. Thus, only after four years of added costs could any savings begin to accrue.

PPSS Response:

Unduplicated savings for these 3 issues combined total $6.1 billion over three years. Further, one-time inventory reductions account for $4.3 billion of savings in years 1 and 2, so that ongoing savings over three years are $1.8 billion, not the $7-$8 billion calculated by CBO/GAO. In year 3, savings are only $1.4 billion -- this (with inflation added) is the estimated yearly savings amount.

Further, PPSS notes that the first year of claimed savings is after $1.4 billion has been spent over 4 years on upgrading computer systems, exactly as CBO/GAO have analyzed. Savings, therefore, would occur exactly as calculated by PPSS, since year 1 does not correspond to fiscal year 1985, as CBO/GAO have assumed.

Further, PPSS savings are based on data provided by the services, which estimate that "improved inventory management systems could increase weapons availability by 5 to 15 percent."

It should be emphasized that savings data are estimates of costs, savings, or revenues and are not of budget quality -- PPSS was a survey not an in-depth audit.

Change Physical Inventory Management
(PROC-10, PROC-12)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

Any budgetary savings that would result from conducting complete physical inventories would flow largely from potential reductions of future procurement of supplies and to a smaller extent from receipts of one-time sales of surplus assets. No data exist, however, with which to assess the amount of oversupply, if any, in DOD's current inventories. Also, there is no way of knowing in advance if surplus items are included in current procurement plans. If not, there would be no identifiable savings from the DOD baseline budget. (PPSS proposes no savings from this issue -- PROC-12.)

The complete inventory of DOD supply depots would require closing these facilities during the process. In the private sector, the time required for this procedure is brief. Given the scale of DOD operations, however, and the requirement to ensure readiness, even a brief shutdown of its depots would require extensive planning and special orders of critical parts and equipment in order to maintain military preparedness.

CBO cannot estimate savings accruing from the proposal to enforce use of the Economic Order Quantity (EOQ) Inventory Management System, because it cannot estimate the size of the excess inventories that may be identified or the speed with which these inventories can be liquidated. It is unclear as to the extent that the EOQ system is actually being overridden by DOD inventory managers. The commission, however, assumed that inventories could be reduced by $4.5 billion over 3 years and calculated savings based upon this assumption.

PPSS Response:

PPSS noted that gross inventory adjustments for 1981 in DOD exceeded $2 billion, approximately 4% of inventory on hand. Navy inventory adjustments have increased from $100 million to $500 million in 1981, a rate of growth of 123.6%. PPSS noted that net overages were being recorded in DOD inventory adjustment, indicating either poor accounting control or inaccurate counts.

As a result of the above deficiencies, PPSS concluded that "wall-to-wall" inventories are necessary.

It is not PPSS' position that all DOD supply depots be inventoried simultaneously. The private sector inventories operations sequentially, when necessary. There is no reason DOD can not do the same. Further, PPSS proposes a pilot program to test the feasibility of this approach by taking

(Continued on next page)

Change Physical Inventory Management (Continued)

"wall-to-wall" inventories at selected warehouses within one depot. CBO/GAO arguments that all DOD depots would have to be closed is grossly misleading.

Regarding the Economic Order Quantity (EOQ) system, PPSS notes that GAO, in its analysis of PROC-10, states:

> Inventory management effectiveness is based primarily on fill rates whereas readiness rates are the primary effectiveness measure for operational users. Unfortunately, high fill rates do not necessarily equate to high readiness rates, because inventory managers concentrate variable safety levels on those inventory items -- high demand, low cost -- that ensure high fill rates. These items, however, are not necessarily those that ensure readiness. Thus, inventory management effectiveness is often achieved at the expense of operational readiness.

PPSS savings analyses are based on discussions with service inventory managers and the conclusions that the services appear to order two EOQs at a time, with the frequency of ordering about once a year.

Improve Management of DOD Laboratories
(OSD-19)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$287	$632	$855	$1,118	$1,363	$4,255
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO cannot estimate savings for commission proposals to improve planning, monitoring, management, and coordination of data exchange for research and development (R&D) between services and between defense laboratories in order to reduce duplication of effort and improve productivity in DOD labs. First, there is a broad range of potential changes to R&D planning, monitoring, management, and coordination of data exchange, each having a distinct savings potential. Second, even if specific changes were recommended and put into operation, it is not possible to estimate savings that might occur from any particular improvement in planning, for example.

PPSS Response:

The PPSS savings estimate assumes that laboratory costs can be reduced by 5% if recommendations are implemented. While most DOD research is classified, cases are still reported where individual services are pursuing the same research independently -- e.g., the development of protective clothing by the armed services. How much of classified research is duplicative could not be determined by PPSS, but we are confident it exists. We do not feel our estimate is optimistic.

Improve Research and Development Management

(R&D 1, R&D 2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Quantified					
PPSS Est.	$365	$780	$1,115	$1,482	$1,585	$5,327
PPSS Above/(Below)						
Amount	$365	$780	$1,115	$1,482	$1,585	$5,327
Percent	ND	ND	ND	ND	ND	ND

CBO/GAO Comments:

CBO does not believe improved strategic planning in itself will result in savings. To achieve savings, R & D projects that are redundant will have to be eliminated. The Commission's estimates are based on interviews with DOE managers concerning the effects of recent funding uncertainty on R & D programs.

PPSS Response:

CBO continues to underestimate the potential for savings of improved management. The PPSS savings estimate is based on a conservative 5% savings in Federal R & D programs. GAO is in favor of PPSS recommendations in this area.

Reduce DOD Oversight of Contractor's Independent Research and Development Cost (OSD-18)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.			Savings Not Estimated			
PPSS Est.	$41	$90	$120	$160	$195	$608
PPSS Above/(Below)						
Amount			NA			
Percent						

CBO/GAO Comments:

CBO cannot estimate savings from eliminating regulation of contractor R&D expenses because the results of implementating the proposal are uncertain. While it is clear that the elimination of 1,200 oversight jobs would lead to savings, CBO believes that these savings could be entirely offset by increased IR&D reimbursements. The prior approvals and negotiated cost ceilings on all IR&D efforts limit reimbursements to a fixed amount on approved projects. According to CBO, this recommendation could increase Government costs by millions of dollars annually.

PPSS Response:

PPSS finds that CBO objections to this recommendation are certainly no better supported than the reasons used by PPSS to substantiate it.

PPSS' main objections to these regulations are that R&D costs are no different than other overhead costs. If they are subject to audit as are other costs, there is no reason to maintain specific regulations which are burdensome to both the Government and industry.

Revise Financial Accounting Management
(USAF-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.			Savings Not Estimated			
PPSS Est.	$116	$244	$351	$475	$512	$1,698
PPSS Above/(Below)						
Amount			NA			
Percent						

CBO/GAO Comments:

The commission proposals to revise DOD financial accounting and management, by: (1) shifting the focus of Congressional appropriations from an obligation basis to an accrued expenditure basis, (2) enforcing P.L. 84-863, which requires use of accrual accounting, (3) changing the appropriations structure to combine all operating expense appropriations, and (4) providing a system that focuses on the total operating expenses of each organizational unit, do not include sufficient detail for CBO to estimate savings. The recommendations are managerial and technical in nature and would not in themselves cause savings. Even if estimates of the efficiency-related savings were possible, the savings might be partially or totally offset by the added costs of installing and operating a revised accounting and budgeting system and the one-time cost of severance pay for military and/or civilian personnel who might lose their employment.

The commission's three-year savings estimate of $1.2 billion assumed an immediate one percent savings for total budgeted operating expenses, but the commission offered no basis for the savings assumption. It would be more reasonable to assume that it would take several years to develop and implement a major revision to the current DOD financial management and accounting systems.

PPSS Response:

To say that managerial and technical changes such as those proposed by PPSS do not in themselves cause savings reflects a poor understanding of the massive potential for savings that proper managerial and financial control could have throughout Government. This concept is fundamental to the private sector where financial performance is a basis for survival.

Claiming that savings may be offset by added costs of installing and operating a revised accounting system plus severance costs is a manifestation of the pervasive short-term outlook of those in the Federal bureaucracy. Clearly, once the system is implemented and functioning, costs will decrease as savings grow.

The PPSS savings estimate of one percent of operating costs is considered conservative by PPSS and certainly represents more thought than that offered by CBO.

Revise the Family Makeup for the Thrifty Food Plan
(AG-9)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 490	$515	$ 540	$ 560	$ 585	$2,690
PPSS Est.	315	688	1,012	1,420	1,584	5,019
PPSS Above/(Below)						
Amount	$(175)	$173	$ 472	$ 860	$ 999	$2,329
Percent	(35.7)%	33.6%	87.4%	153.6%	170.8%	86.8%

CBO/GAO Comments:

CBO states that PPSS three-year savings estimate of nearly $3.4 billion from the proposal is more than twice as large as the CBO estimate of $1.5 billion for 1985-1987.

PPSS Response:

As noted by CBO the major reasons for CBO's lower estimate is the use of the recently revised thrifty food plan, which is expected to be the basis of future allotments, which was developed after PPSS analysis.

PPSS savings calculations were of a planning nature and not of budgeted quality. Lack of detailed/sufficient information and fine tuning of estimates accounts for the differences in savings. Appraising the impact of such a change on a major program should not be mitigated by these obstacles.

Reduce the Food Stamp - Child Nutrition Overlap
(AG-13)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 500	$ 515	$530	$550	$570	$2,665
PPSS Est.	158	345	507	711	794	2,515
PPSS Above/(Below)						
Amount	$(342)	$(170)	$(23)	$161	$224	$ (150)
Percent	68.4%	(33.0)%	(4.3)%	29.3%	39.3%	(5.6)%

CBO/GAO Comments:

CBO noted that the CBO savings estimate of $1.5 billion for 1985-1987 is similar to the PPSS three-year estimate of $1.7 billion.

PPSS Response:

Both CBO/GAO and PPSS agree on the thrust of the recommendation and are in close agreement on the savings calculations. The issue as presented here would include school lunch aid as income in determining food stamp benefits. PPSS developed this further in issue AG-14 to include other child nutrition programs in determining food stamp benefits.

Reduce Commodity Credit Corporation Inventories
(ASSET-5)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 85	$ 95	$100	$105	$110	$495
PPSS Est.	186	273	188	193	45	885
PPSS Above/(Below)						
Amount	$101	$178	$ 88	$ 88	$(65)	$390
Percent	118.8%	187.4%	88.0%	83.8%	(59.1)%	78.8%

CBO/GAO Comments:

CBO estimates that the food stamp proposal would save $495 million over the 1985-1989 period, while the Public Law 480 recommendation would result in no additional savings. Most of the estimated savings from the designation of a portion of food stamps for dairy products stem from reductions in CCC purchases.

PPSS Response:

CBO estimates that there are approximately $0.5 billion in potential savings from designating a portion of food stamps for dairy products as proposed by PPSS. CBO states there is no additional savings to be gained by eliminating interagency conflict in the administration of the P.L. 480 food aid program. PPSS proposed an increase in the drawdown of CCC inventories through increase effectiveness of the food programs. This could be accomplished by mitigating the slow response time which often results through conflicting objectives of various agencies. PPSS estimated that food programs can be expanded through accenting barter arrangements, resulting in a 30% reduction in CCC inventory. CBO dismissed the 30% reduction as unlikely and did not attempt to estimate savings because it felt that much of the inventory is not well-suited for foreign disposition, because it consists of dairy products requiring reprocessing and refrigeration for distribution. It also felt that most reimbursements to CCC from P.L. 480 appropriations would produce no revenues with potential savings occuring through lower storage costs.

Require Multiple Disbursements of Guaranteed Student Loans
(ED-1-2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ -	$110	$ 110	$ 100	$100	$ 420
PPSS Est.	547	991	1,042	1,310	959	4,849
PPSS Above/(Below)						
Amount	$547	$881	$ 932	$1,210	$859	$4,429
Percent	100.0%	800.9%	847.3%	999+	859.0%	999+

CBO/GAO Comments:

PPSS recommends that multiple loan disbursements to students made under the GSL program be required by law. GSL lenders (commonly, private financial and educational institutions) now can disburse loans for the coming academic year either at one time or in multiple allotments. In addition, the PPSS recommends that Federal interest and special allowance subsidies be paid only on the portion of the loan actually disbursed to students.

The PPSS' estimated savings of $1 billion over a three-year period seems to be in interest on the public debt resulting from lowering the GSL loan capital by $4.7 billion over three years. In fact, however, GSL capital is financed by private lenders and is not part of the Federal budget. The CBO savings estimate of $190 million over a three-year period, on the other hand, reflects the impact on the GSL program only.

PPSS Response:

CBO states that the PPSS estimated savings of $1 billion are overstated because GSL capital is financed by private lenders and is not part of the Federal budget. We disagree. The Federal Government now pays quarterly administration fees to agencies guaranteeing loans under the popular GSL program. It also pays banks for all interest on such loans while the student is in school, as well as any differential between prevailing interest rates and the 5% to 9% student rates over the life of the loan. In total, these three cost elements approach half the loan principal without considering the added cost of either defaults on loans guaranteed by the Government or the continual threat of waste, fraud, abuse, and error.

Increase the Origination Fee on Guaranteed Student Loans
(ASSET-19)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$175	$350	$350	$350	$350	$1,575
PPSS Est.	147	314	453	616	666	2,196
PPSS Above/(Below)						
Amount	$(28)	$(36)	$103	$266	$316	$ 621
Percent	(16.0)%	(10.3)%	29.4%	76.0%	90.3%	39.4%

CBO/GAO Comments:

The commission proposes that the DOE double its present origination fee of 5% on GSLs. Imposed at the time a GSL is disbursed to a student, the fee is actually withheld by lenders (commonly, private financial and educational institutions) from total prospective loan amounts. Receipts are used to offset Federal interest subsidies on GSL lending. The annual volume of new GSL lending is projected at $7 billion over the coming five years.

The PPSS attributes a three-year revenue gain of $1.6 billion to this proposal. In fact, however, the change would result not in a revenue increase but in an outlay reduction, which the CBO estimates at roughly $1 billion for the same three years. Differences in the assumed loan volume account for the discrepancy. The commission has projected the budgetary effects on the basis of higher DOE Education estimates of GSL lending volume, the CBO baseline assumes a lower projected level.

An origination fee at whatever level reduces the principal GSL amount available to a student accordingly. For GSL undergraduate students already borrowing the maximum amounts, the 10% fee would reduce the money available to them for school by $125; and for graduate students, the reduction would be $250. The Administration proposed such an increase in the fee in 1983 and a similar but more limited increase in 1984. Both were rejected by the Congress.

PPSS Response:

The consensus of private sector financial experts was that the appropriate way to increase the GSL user charge is to increase the origination fee from 5% to 10%. An example of how the fee is collected provides for a student who borrows $2,500 to actually receive $2,250, with, $250 going back to the Government as the origination fee. After completing the coursework, the borrower would repay the $2,500 loan at 9% interest, the explicit interest rate remains constant while the effective interest rate increases. Carrying the example further, if the loan were paid back over five years, the existing 5% origination fee would raise the effective interest rate to 11%, and the additional 5% origination fee would raise that rate to 13.2%. This is still lower than can be found in the private sector and still enables the borrower to defer repayment while in school.

Eliminate Federal Subsidy for Railroad Retirement Windfall Benefits
(BANK-12)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$405	$380	$360	$340	$320	$1,805
PPSS Est.	177	377	536	722	780	2,592
PPSS Above/(Below)						
Amount	$228	$ 3	$176	$382	$460	$ 787
Percent	56.3%	0.8%	48.9%	112.4%	143.8%	43.6%

CBO/GAO Comments:

CBO/GAO basically agree that the elimination of RRS windfall benefits would provide substantial savings. CBO estimates slightly lower outlay savings than PPSS because CBO incorporates an updated estimate of the windfall benefit which is gradually declining. Of note, GAO has not recommended that the portion of the RRS that is equivalent to Social Security benefits be moved under Social Security, but it agrees that such a change appears logical and worthwhile.

PPSS Response:

Over three years, PPSS estimated savings of $1.2 billion by eliminating windfall benefits. This is in line with the CBO estimate which uses an updated estimate of windfall benefits. It is of interest to note that the separation of Tier 1 (Social Security portion) and Tier 2 (railroad pension) would, as PPSS states, remove the veil which would clearly show the system as a "private" package wrapped in Government paper. In addition, once Tier 1 is removed and clearly labeled as Social Security benefits, it becomes apparent that Tier 2 benefits are normal pension benefits, thus raising the question of their taxability. Removing the appearance of having two separate systems exposes the windfall benefits payments as direct benefit subsidies to a specific special interest group.

Tighten Social Security Disability Claims Process
(SSA-10)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$360	$780	$1,250	$1,660	$2,070	$6,120
PPSS Est.	393	871	1,293	1,824	2,064	6,445
PPSS Above/(Below)						
Amount	$ 33	$ 91	$ 43	$ 164	$ (6)	$ 325
Percent	9.2%	11.7%	3.4%	9.9%	(0.3)%	5.3%

CBO/GAO Comments:

The PPSS recommends changing the appeal process for persons denied Disability Insurance (DI) and Supplemental Security Income (SSI) disability benefits. CBO estimates that adopting the PPSS recommendations would save $360 million in 1985, and the five-year savings would total $6.1 billion. The savings would occur in the Medicare and Medicaid programs as well as in DI and SSI because many individuals receive these health program benefits as a result of receiving disability payments. This estimate is based on a reduction of about 15% in new awards annually: 45,000 in DI and 35,000 in SSI. It also assumes a 15% reduction in the number of individuals retained on the rolls after a regularly scheduled medical or continuing disability review (CDR).

The CBO estimate is below the PPSS estimate of 223,489 people not awarded benefits each year. Merely, reassigning staff to process more CDRs would have little effect on the number of individuals terminated from the disability rolls since the majority of those scheduled to be reviewed for the first time have already been reviewed or are scheduled for a review under current policy. It is very unlikely that many beneficiaries whose benefits have been continued after one review would be terminated after a later review. More individuals will be awarded benefits at reconsideration if the claimants are aware that it is their last chance to submit new evidence. Second, the CBO estimate includes neither savings from additional CDRs nor savings from increased staff productivity and improved methods. Improved processing methods might possibly increase the number of claimants allowed at the initial stage, not decrease them.

PPSS Response:

Although the PPSS estimates overstate the reduction in the number of people who would receive benefits, the cost estimate understates the cummulative savings which would result from the change in the appeal process. The PPSS estimate does not take into consideration the compound affect of annual reductions in the number of people who would be on the rolls under current law. The CBO cost estimate grows rapidly because it assumes that many of those denied benefits each year would have otherwise received benefits in subsequent years. The PPSS estimate also does not include savings in the Medicare and Medicaid programs.

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Tighten Social Security Disability Claims Process (Continued)

It is not clear how CBO/GAO reductions in DI and SSI claimants were derived, nor how many individuals would be disallowed after a continuing disability review. Regarding changes to the appeals process which would reduce the benefit rolls by 88,524, PPSS data are based on historical data and current published analyses.

Other changes to the rolls include (1) 36,965 less eligibles through more thorough investigations and (2) 98,000 less through expanded CDRs, as follows:

1. The improved processing procedures should eliminate some unqualified claimants from the rolls. Recent GAO studies have estimated that 20% of the people on the rolls are not actually qualified. The improved procedures should reduce this rate by approximately 30%, and 6% of the current approvals would be eliminated.

2. The reassignment of personnel currently involved in reconsideration to initial claims and CDRs should permit an increase in the number of CDRs performed. This should permit an additional 218,000 CDRs and, with a 45% reversal rate (the actual rate for FY 1982), 98,000 should be eliminated from the rolls.

Since the HHS, SSA Task Force did not look at Medicare or Medicaid, no added savings are claimed in these areas. CBO/GAO is correct, however, that savings are understated in that PPSS did not consider the cumulative effect of denying benefits in the years after the initial determination.

Reduce the Deficit for the Pension Benefit Guaranty Corporation
(BANK-I-5)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$700	$ 760	$ 820	$ 890	$ 970	$4,140
PPSS Est.	609	1,253	1,690	2,251	2,324	8,127
PPSS Above/(Below)						
Amount	$(91)	$ 423	$ 870	$1,431	$1,354	$3,987
Percent	(13.0)%	64.9%	106.1%	160.8%	139.6%	96.3%

CBO/GAO Comments:

The CBO estimate includes savings from all the PPSS proposals except the risk-related recommendation for premiums for which details were not specific enough to allow estimating.

The PPSS savings estimates for accelerating the premium collection schedule and increasing the use of contracting for financial services appear to be overstated. The PPSS's estimated savings for accelerated collections would recur in the same magnitude each year; in fact, however, the accelerated collection is a one-time occurrence.

The PPSS's estimated savings from the increased use of contracting with the private insurance industry--$132.4 million over three years--also appears overstated. The PPSS estimate assumes that all of the PBGC's assets and liabilities could be transferred to private contractors. Since the corporation is currently operating at a deficit, those liabilities in excess of assets obviously could not be transferred to contractors. Furthermore, the likelihood of the industry's absorbing the PBGC's total liabilities in a single year is doubtful. A gradual phase-in would further reduce savings.

Although the true impact cannot be determined, as the results would accumulate over several years, GAO believes that the PPSS's savings estimate for closing the loopholes in ERISA is within reason.

PPSS Response:

For the five issues combined CBO savings estimates are in line with those of PPSS. While the acceleration of collections resulting from PPSS recommendations would be a one time occurrence, interest savings resulting from the acceleration would recur each year.

Further, for budget reconciliation purposes PPSS assumes that the assumption of PBGC's total liabilities by the private sector will be phased in over several years as is reflected in the above estimate.

Eliminate Donations from CCC to Other Agencies
(AG-22)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$(15)	$(35)	$(50)	$(65)	$(80)	$(245)
PPSS Est.	90	133	167	206	228	824
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO states that there is no potential for budgetary savings and that reimbursement to the CCC is merely an intergovernmental transfer, and not a reduction in total budget outlays. In addition, CBO states that freezing CCC donations at the $728 million level would result in increased inventory and storage costs, i.e., $245 million over five years.

PPSS Response:

PPSS acknowledged that accounting for these donations involved transfers of Government funds. However, PPSS realistically noted that it can be assumed that only some portions of these donations will be requested and/or appropriated when the true cost of those "donations" is made clear. For calculation of savings, it was conservatively assumed that half of these donations -- approximately $364 million per year -- would occur, resulting in savings of $1.2 billion over three years.

PPSS recommended eliminating all CCC donations and procure and release commodities from its inventories to other programs as long as it is reimbursed for the costs. PPSS noted that there would be an immediate reduction in CCC's realized losses (at least $728 million in the initial year) by amounts which would have been donated. PPSS also recognized that these savings would be partly offset by increased storage costs. There would also be immediate achievement of responsibility and accountability for the real size, efficiency, and costs of the relevant Government programs, including the U.S. farm programs.

Require Prospective Systems for Medicaid Hospital Reimbursement (LISAB-8)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 20	$ 50	$ 40	$ 45	$ 50	$ 185
PPSS Est.	109	240	357	497	553	1,756
PPSS Above/(Below)						
Amount	$ 89	$190	$317	$452	$503	$1,571
Percent	445.0%	380.0%	792.5%	999+	999+	849.2%

CBO/GAO Comments:

To reduce the growth of in-patient hospital expenditures the PPSS recommends the following: Require all states to replace retrospective (cost based) reimbursement systems with prospective (negotiated or fixed rate) payment systems. Encourage states to implement hospital rate setting programs that would apply to all payers--both government and private insurers. Create competitive forces in the private and public health care sectors. To lower expenditures for long-term care PPSS recommends: Require prescreening and case management as a condition of participation in community-based service programs.

The requirement that all states adopt prospective payment systems would affect the 26 states that reimburse for in-patient hospital services using retrospecitve reimbursement methods. These 26 states account for only 29 percent of in-patient hospital expenditures under Medicaid. CBO estimates that the annual savings from the proposal are likely to average roughly $40 million rather than the $160 million estimated by the PPSS.

Prescreening and case management would not result in cost savings unless they were combined with an expansion in community-based services provided under Medicaid and a cap on increases in Medicaid expenditures for long-term care.

PPSS Response:

As with other issues, CBO concentrates on attacking the savings, with little thought given to the worthiness of the recommendation. It is unclear to PPSS how a prospective reimbursement system will cost more for small states than the current retrospective system.

CBO also states that prescreening and case management would not result in savings unless there was a cap on Medicaid and Medicare. PPSS recommends that spending be capped at 1983 levels, increasing only by growth in GNP for all future years (MEDIC-1)

Coordinate and Automate State Welfare Data
(LISAB-5)

	Annual Savings ($ Millions)					Cumulative Five-Year
	1985	1986	1987	1988	1989	Savings
CBO/GAO Est.	$ -	$ -	$ 25	$ 25	$ 25	$ 75
PPSS Est.	175	382	561	774	858	2,750
PPSS Above/(Below)						
Amount	NA	NA	$536	$749	$833	$2,675
Percent	NA	NA	999+	999+	999+	999+

CBO/GAO Comments:

CBO basically disagrees with the savings associated with automating state welfare data. It noted that on the basis of one state's experience PPSS extrapolated savings nation-wide; recommendations affect automation only marginally, and that savings include reductions in error rates.

PPSS Response:

PPSS savings are considered to be of a planning nature and not of budget quality. PPSS noted that incentive programs for states to automate welfare data are relatively new and the Federal government has not yet projected cost savings over a period of time. In focusing on the advantages of a coordinated automated system savings and cost avoidances can be realized for administrative and operating costs. The key advantage however, results in coordinating benefits so as to reduce ineligible benefits through more accurate welfare records. An analysis of state programs under way provided the basis for projecting cost savings.

A centralized data base would improve delivery of benefits to individuals who are eligible for public assistance. In addition to reducing fraud and erroneous payments, there would be reduced costs associated with social workers time, etc. The SIEDRS policies demonstrate that states can achieve significant savings through cost avoidance while obtaining the maximum amount of reimbursement for the cost of implementing an integrated automated system.

Improve Income Verification in Means-Tested Programs
(LISAB-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$(31)	$340	$405	$ 425	$ 455	$1,594
PPSS Est.	227	499	732	1,008	1,122	3,588
PPSS Above/(Below)						
Amount	ND	$159	$327	$ 583	$ 667	$1,994
Percent	-	46.8%	80.7%	137.2%	146.6%	125.1%

CBO/GAO Comments:

CBO basically agrees with the thrust of this issue. Due to certain fiscal sanctions for erroneous payments imposed on these programs, savings may not be as large as PPSS estimates. In addition, CBO cautions that individual privacy should be protected.

PPSS Response:

The use of income tax returns should not be considered as an invasion of privacy. The use of income tax returns are normally required in filing for mortgage applications. Use of such information would pose little or no threat to individuals making an honest claim for benefits. On the other hand, use of such information may dissuade those with not so honest intentions.

Refine VA Response to Guaranteed Loan Foreclosures (VA-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$183	$75	$50	$63	$78	$449
PPSS Est.	22	47	66	87	93	315
PPSS Above/(Below)						
Amount	$(161)	$(28)	$(16)	$24	$15	$(134)
Percent	(88.0)%	(37.3)%	(32.0)%	38.1%	19.2%	(29.8)%

CBO/GAO Comments:

The CBO estimates that, if VA-specified bids more accurately reflected the true net value of acquired properties to the agency, the typical bid would fall from the current level of about 93% of the appraised value to about 80% of the appraisal. When the VA-specified price is the successful bid at the foreclosure auction, the decrease in the bid amount would not affect VA's obligation to the lender nor significantly affect the agency's net loss on the transaction. The lower bid, however, could induce third parties to enter competitive bids at the sale. If the third-party bid is successful, VA's obligation to the lender decreases to the sum of the lender's losses reduced by the proceeds of the sale.

PPSS Response:

PPSS and CBO appear to be in agreement in this instance, though it is not stated why CBO savings vary so much from year to year.

Reduce Errors in VA Claims Processing
(VA-2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$152	$324	$471	$630	$678	$2,255
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

Budgetary Impact. The PPSS estimated that the VA could save $1.5 billion over three years if the agency doubled the rate at which errors in benefit payments were detected and corrected, assuming that the agency could double the amount of accounts receivable it currently establishes each year with better error detection. Many accounts receivable (A/Rs) are unrelated to benefit overpayments (such as indebtedness remaining after the foreclosure of a guaranteed home loan) and the majority of errors that do result in overpayments are not committed by agency personnel and therefore may not be responsive to agency correction efforts. The VA has estimated that, of the $178 million in education A/Rs established during fiscal year 1983, only about 16 percent resulted from processing delays and errors. The VA does not capture the amount of compensation and pension overpayments caused by agency error because no A/R is established. Compensation and pension beneficiaries are not required to return overpayments caused by agency error. Thus, of the nearly $400 million in compensation, pension, and education A/Rs established in 1983, less than $30 million resulted from agency error. The remaining $370 million in overpayments were caused by delays or errors on the part of schools, beneficiaries, or other individuals over whom the agency has no control. The largest savings from improving the error detection rate is likely to be from the reduction in compensation and pension errors. It is not possible to determine the potential savings.

The PPSS suggestion to track the processing errors that result in compensation and pension overpayments, would most likely result in improved error detection. Other suggestions, such as doing a $3-5 million comprehensive study of causes of errors, might not demonstrate an acceptable cost-benefit ratio. Others, such as delaying awards until all beneficiary-supplied information has been verified, might cause substantial delays in the receipt of benefit payments by beneficiaries.

PPSS Response:

CBO questions our assumption that VA could double the rate at which errors are detected from 3% to 6% through improved systems and procedures for processing claims. We disagree. In any system which pays $15 billion

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annually to six million claimants, errors are certain to occur. In payment systems where determination of payment amounts depends on different types of information (medical, income, family status), the chance for error increases.

If adequate controls were implemented the error rate would undoubtedly increase. In a comparable situation where comprehensive controls are employed, Social Security has detected a 20% error rate for disability claims. Therefore, it is conservative to assume that if the recommendation in this area were implemented, the detected error rate would double to 6%. Also the improved detection techniques should develop information on the causes of these errors so that effective preventive measures can be implemented.

Replace Direct Loan Programs With Loan Guarantees
(ASSET-18)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.						
On-Budget	$ 40	$ 10	$ 120	$ 460	$ 780	$ 1,410
Off-Budget	6,660	8,250	8,340	8,170	7,630	39,050
Total	$ 6,700	$ 8,260	$ 8,460	$ 8,630	$ 8,410	$40,460
PPSS Est.	5,297	10,790	14,774	19,298	20,946	71,105
PPSS Above/(Below)						
Amount	$(1,403)	$ 2,530	$ 6,314	$10,668	$12,536	$30,645
Percent	(20.9)%	30.6%	74.6%	123.6%	149.1%	75.7%

CBO/GAO Comments:

The PPSS' proposal would significantly change the roles of SBA and FmHA by reducing their ability to serve businesses and households with limited financial resources.

Eligibility for SBA direct business loans requires that an applicant first be rejected for an SBA guaranteed loan. Consequently, an applicant would be unlikely to qualify for any expanded guarantee program resulting from the PPSS conversion plan. New firms with little financial history would be most affected.

Some of FmHA loans require a "credit-elsewhere" test, meaning that in order to be eligible, applicants must be unable to obtain credit from other sources. A switch to guaranteed loans would eliminate such applicants from consideration.

In addition, a substantial proportion of current FmHA direct lending is made available at subsidized interest rates. Market-rate loans, even if guaranteed, would be beyond the financial reach of many of those now eligible for direct loans. For example, most of FmHA's housing assistance in recent years has been earmarked by the Congress to benefit low-income households.

PPSS Response:

Three-year savings as reported by the Task Force are $1.9 billion. However, when applied to the budget, PPSS used the same methodology as CBO/GAO (including off-budget savings since direct loans disbursements would cease) to arrive at its savings estimate.

The CBO/GAO analysis is precisely why PPSS recommended that the Government needs to explicitly identify subsidy programs. With total disregard for repayment prospects and emphasis on quantity rather than quality (e.g., only 18¢ of each dollar SBA places in liquidation is recovered, with private sector recoveries three times as high), these are not loan programs, but rather grant programs. With interest rates of 1% and 1.5% versus Government borrowing costs of 10.75%, such subsidies should be explicit, not euphemistically referred to as "loans."

Raise Interest Rates on Government Loans

(ASSET-18, STATE-7)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 10	$ 90	$ 230	$ 410	$ 620	$ 1,360
PPSS Est.	5,436	11,085	15,189	19,849	21,546	73,105
PPSS Above/(Below)						
Amount	$5,426	$10,995	$14,959	$19,439	$20,926	$71,745
Percent	999+	999+	999+	999+	999+	999+

CBO/GAO Comments:

The gap between market interest rates and the interest rates charged on direct loans made by the federal government has increased for a large number of lending programs in recent years. PPSS recommends that interest rates for all federal direct loan programs be set at rates equal to current market interest rates or at rates that would reestablish the subsidy intended by the Congress when the program was enacted.

CBO claims the PPSS savings estimates are higher because the PPSS estimate does not reflect the fact that loans funded in a given year are disbursed over a period of several years, and that loan amortization schedules reduce the initial impact of changes in interest rates. The PPSS estimates also were made at a time when the spread between government rates and market rates was at an all-time high. The recent decline in all interest rates reduces the savings possible for most programs. In several cases, Congressional action has already taken place to reduce or eliminate the subsidies targeted by the proposal.

PPSS Response:

While the PPSS recommendation was made at a time of higher interest rates we feel it remains an important one. The actual phase-in of PPSS savings for budget purposes conforms more closely with CBO estimates and methodology.

Consolidate the Department of Education's Student Loan Program
(ED-1-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$275	$480	$ 425	$ 400	$395	$1,975
PPSS Est.	547	991	1,042	1,310	959	4,849
PPSS Above/(Below)						
Amount	$272	$511	$ 617	$ 910	$564	$2,874
Percent	98.9%	106.5%	145.2%	227.5%	142.8%	145.5%

CBO/GAO Comments:

This proposal would effectively eliminate the auxiliary loan program. Borrowers in the auxiliary loan program are either borrowing the funds in addition to borrowing the maximum under the GSL program or are not currently eligible for a GSL. Eligibility requirements and maximum borrowing limits of the GSL program could be expanded, but this could increase costs.

Approximately 800,000 students are expected to borrow approximately $700 million in NDSL loans in 1985. Under the PPSS proposals, these students would have to borrow from GSL lenders. To the extent that these students cannot borrow the needed capital under the GSL program, federal aid targeted to low-income students would be reduced.

In 1991 under current law, colleges would begin paying the federal government 90 percent of their NDSL collections. This proposal not only accelerates these receipts but actually closes out the revolving funds at each institution and makes the federal government responsible for loan collections. This would significantly increase the Education Department's role in the collection business. Whether the federal government would be more successful collecting loans than the academic institutions is not known.

PPSS Response:

Consolidating student loan programs can save $1.43 billion according to CBO, 64% greater than the $870 million estimated by PPSS. CBO points out that each student can currently borrow under more than one government loan program and that the NDSL is geared toward borrowing who are not eligible for GSL loans, but as CBO points out, eligibility requirements can be changed.

PPSS believes the positive results from consolidating all student loan programs, including lower default rates and greater private sector participation in granting loans which reduces the risk to the Federal government. Currently the NDSL default rate is running at 20%, vs. 9% for the GSL.

Use IRS Refund Offset to Collect Delinquent Debt
(ASSET-27)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$150	$250	$450	$650	$900	$2,400
PPSS Est.	Savings Not Estimated					

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

CBO states that GAO made a similar recommendation in March 1979 for the Federal Government to use the tax refund offset mechanism.

PPSS Response:

CBO/GAO and PPSS basically agree on both the recommendation and on the savings achievable. CBO estimates that the five-year savings from this proposal would be $2.4 billion. CBO stated that it accepted the assumptions of PPSS with regard to the fact that 75% of delinquent nontax debt is collectible and that, conservatively, 18% of the collectible delinquent debt could be recovered through a refund offset.

Increase Debt Collection Through Outside Efforts (ASSET-28))

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.			Savings Not Estimated			
PPSS Est.			Savings Not Estimated			
PPSS Above/(Below)						
Amount						
Percent			NA			

CBO/GAO Comments:

CBO does not estimate savings from its baseline because the Congress has already enacted legislation subsequent to PPSS review--the Debt Collection Act of 1982 (Public Law 97-365)--which allows the use of credit bureaus and private-sector collection agencies, and authorizes the IRS to disclose debtor addresses. Because the anticipated improvements in collections are therefore included in the CBO baseline assumptions, no additional savings would result.

PPSS Response:

Under the 1982 law, eight agencies are currently testing the use of collection agencies to recover delinquent debts. Several agencies have also begun referring debtors to credit bureaus. PPSS believes its recommendations should be more agressively implemented to realize larger immediate savings.

Charge Interest and Penalities on Delinquent Debt
(ASSET-29)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO claims this proposal is being implemented under the Debt Collection Act passed subsequent to the PPSS review, so savings are already reflected in the CBO baseline.

PPSS Response:

While the Debt Collection Act has incorporated the thrust of PPSS recommendations it should be noted that prior legislation with similar requirements was passively enforced by most agencies. PPSS believes the Administration must continue to aggressively upgrade its financial and management information systems to ensure that this legislation is enforced in a timely manner.

Apply Market Practices to Direct Federal Lending
(ASSET-11)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$170	$180	$180	$190	$190	$910
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

PPSS recommendations are intended to reduce payment delinquencies and to recover certain costs associated with making loans, e.g., charge interest on all late loan payments, establish a late payment penalty for all Federal direct loan programs, establish nonrefundable application and origination fees, and shorten time span that determines delinquencies from 30 days to 15 days.

PPSS Response:

CBO/GAO are basically in agreement on the recommendations while estimated total savings are somewhat lower for CBO since it calculated only savings attributed to the proposal to require nonrefundable application or origination fees for all Federal direct loans. On this recommendation, savings are in line with CBO estimates. CBO states that additional receipts from penalty interest and fees will mostly be achieved with the full implementation of the Debt Collection Act.

Improve Credit Processing and Debt Collection Management
(ASSET-12, ASSET-26)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Quantified					
PPSS Est.	Savings Not Quantified					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO states that savings are difficult to quantify with respect to proposed improvements in the processing of credit and collection of debts. PPSS proposed establishing central credit departments within each agency, developing uniform credit definitions, and providing incentives to improve collections and improving MIS, etc. CBO stated that GAO has made similar recommendations in several reports, most recently in April 1983.

PPSS Response:

CBO states that certain of these efforts have already been included in CBO's baseline assumptions. Because certain agencies have begun implementing some of the PPSS proposals, it should not detract from the full impact on the Federal Government of PPSS proposals to essentially bring private sector practices to Government credit processing.

Increase Cost Recovery For Medical Care By VA and IHS (HOSP-12, HOSP-13)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$260	$280	$301	$ 325	$ 350	$1,516
PPSS Est.	280	611	885	1,208	1,323	4,307
PPSS Above/(Below)						
Amount	$ 20	$331	$584	$ 883	$ 973	$2,791
Percent	7.7%	118.2%	194.0%	271.7%	278.0%	184.1%

CBO/GAO Comments:

Changes presently being implemented by the VA will preclude the PPSS proposal and should result in greater savings. IHS usually pays billed charges in full, but these often represent a rate that IHS and the hospital have negotiated down from the hospital's customary charge.

PPSS estimated that nearly $750 million in administrative costs could be saved if the VA and IHS contracted with fiscal intermediaries. The PPSS estimate was based on the erroneous information that it costs the VA between $100 and $140 to process a claim, and IHS between $50 and $200. (The figures were attributed to GAO, but that agency states that it has never calculated the costs.) According to the VA, its average processing cost is $1.83, including all overhead; the IHS states that its cost is between $3 and $4 per claim. The processing costs of a typical financial intermediary average about $6 per claim.

The PPSS also maintains that $195 million in duplicate payments could be saved over three years by using financial intermediaries. Duplicate billings could only be recognized if one financial intermediary processed all claims for federal medical programs, and this does not appear to be the focus of the PPSS proposal. The PPSS estimate of the VA savings, for example, assumes that about 16 percent of contract care costs could be eliminated, citing a GAO report as the source of its data. The GAO report, however, states that, while 15.9 percent of VA contract care claims resulted in duplicate payments, only 4.9 percent of the amount paid in these cases duplicated another federal payment. Thus, we concluded that the savings from eliminating duplicate payments would be quite small and would be offset by the higher cost of processing. One of the specific PPSS recommendations, the establishment of the means test authorized by Public Law 96-330, is already being implemented by VA, but this will disqualify applicants for admission, and savings would not occur from denying admission to these veterans until a sufficient number of beds had been vacated to permit closing down an entire bed section. In facilities with high and rising occupancy rates, beds vacated as a result of the means test would be filled with other qualifying veterans. Since admission would be denied to veterans with valid health insurance coverage, there could be no cost recovery from third-party insurers. CBO's estimate of the savings possible under these proposals is only about half that of the PPSS.

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Increase Cost Recovery For Medical Care By VA and IHS (Continued)

GAO agrees with the PPSS conclusion that VA and Medicare payments for physician services should be governed by similar principles. GAO found that VA paid full billed charges on about 62 percent of the claims. The Health Care Financing Administration (HCFA) paid full billed charges on only 17 percent of the Medicare claims it received.

While GAO agrees with CBO that the data available are not sufficient for a reliable estimate of the budgetary impact of the proposal, it is confident that significant savings would result from the proposal's implementation.

PPSS Response:

CBO states that our estimate of claims processing costs are based on erroneous information, and GAO the source of the PPSS data, claims it did not calculate the cost. The claims costs were arrived as follows:

The cost of processing claims was arrived at by using several estimates. the GAO determined their study of the Portland VA hospital that it costs $50 for the VA to issue a purchase order. As it requires a purchase order to authorize treatment and payment under contract care, this $50 is included in the administrative cost. The VA has also indicated that it costs $20 for a GS-5 clerk to process an authorized claim ($40 for an unauthorized claim), and that information processing time for authorization, hospital record retention and search, benefit appeals and other ancillary costs, bring the overall claims costs to at least $140 per authorized episode (or $200 per unauthorized episode). In the private insurance industry (including fiscal intermediaries) it costs between $3 and $6 to process each claim. The processing costs are much less than in the VA because of high volume, experienced personnel, established procedures, and computer technology.

According to surveys recently performed by GAO personnel, IHS is spending anywhere between $50 and $200 to process each claim. Based on our observations, the varied claims payment systems used by IHS, which include both manual and computerized claims processing, do not ensure program payments.

Regarding Intermediaries, the CBO wrongly assumes that duplicate payments are identified only if one FI processed all claims. FI's use a shared data bank, tapping into information systems of various Federal programs, such as Medicare.

This system would be cost effective, and it would supply additional data for a shared information system to safeguard against duplicate payments and overpayments.

Phase-Out VA Health-Care Facility Construction
(HOSP-5, PRIV-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 47	$ 93	$124	$119	$143	$ 526
PPSS Est.	251	498	610	800	744	2,903
PPSS Above/(Below)						
Amount	$204	$405	$486	$681	$601	$2,377
Percent	434.0%	435.5%	391.9%	572.3%	420.3%	451.9%

CBO/GAO Comments:

The CBO analysis suggests that the estimate of savings may be overstated, because it is based on what appears to be an incorrect assumption that the VA is required by statute to increase its number of nursing home beds by 5,000 before the end of 1987. The VA's latest medical facility construction plan anticipates requesting appropriations for construction of only 2,700 nursing home beds during that period, and very few of these will be completed before 1989. Thus the PPSS has estimated that, under its plan, construction costs of $475 million could be saved by 1987, though the VA anticipates requesting appropriations during these years of only about $275 million for all nursing home construction.

PPSS understates the number of acute-care beds that could be converted to nursing home care. It assumes conversion of only 2,600 beds. The CBO analysis indicates, however, that 3,000 acute-care beds more than enough to fulfill VA plans through 1989 could probably be converted in the next five years without significant effect on the quality of short-term care in VA facilities. CBO estimates an net outlay reduction of $415 million by 1989 from converting all 3,000 beds.

CBO assumes that all future long-term bed needs can be accommodated by conversion of acute-care beds. The commission assumes need for 2,400 additional long-term beds after conversion of 2,600, CBO sees no need for-hence no potential savings in-increased use of private nursing home care.

PPSS estimated that the reorganization and contraction of the VA's Office of Construction could save nearly $450 million over three years. CBO analysis assumes the same staff reduction to be feasible by attrition, producing savings in personnel costs of $114 million over five years.

Finally, the PPSS estimates potential saving of $210 million in construction costs from improved planning. Although CBO has not estimated savings attributable to better construction plans, an apparently faulty assumption in the commission's calculation suggests that its estimate in this area may be overoptimistic. The VA bases its construction plans on recorded lengths of stay in private-sector facilities, not on durations of VA hospital stays as the commission assumes. As patient stays in private hospitals tend to be shorter than in VA hospitals, the VA seems already to be basing its construction plans on relatively conservative projected needs.

The VA is required by law to operate not fewer than 90,000 hospital

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Phase-Out VA Health-Care Facility Construction (Continued)

and nursing home beds at all times. This restriction would have to be relaxed legistlatively to enable the VA to take 3,000 acute-care beds out of operation to permit conversion within the time span envisioned. VA planners believe that a nursing home unit of fewer than 60 beds is inefficient for staffing and program purposes. But many VA hospitals do not have more than 60 underused acute-care beds. If such hospitals now lack nursing home branches that could be expanded in increments of fewer than 60 beds, conversion of the underused beds might be impracticable.

GAO believes that its proposal to extend the VA advance planning fund to cover final design work on construction projects which could shorten by up to 15 months the time needed for VA construction projects, is a better approach to improving VA construction management than the reorganization of the Office of Construction proposed by the PPSS.

PPSS Response:

According to CBO, VA's latest medical construction plan calls for constructing 2,700 new nursing home beds by 1987. Our information, obtained nearly two years ago, was that VA is required to expand nursing home beds to by 5,000 1982-1987. If VA requires fewer beds than we estimate, all the better. The 2,700 beds necessary can all be acquired by using underutilized acute-care facilities at substantially less cost than new construction appropriation cited by CBO. Additional savings estimated by CBO of $415 million over 5 years can be achieved by converting acute-care beds to long-term nursing care. CBO estimates the number of beds which can be converted at 3,000 vs. the PPSS estimate of 2,600.

Regard PPSS savings of $450 million from the reorganization and contraction of the VA's Office of Construction, CBO estimates that staff reductions can be accomplished through attrition at a cost savings of $114 million over 5 years. PPSS estimates savings from staff reductions totalling $29 million over three years. The remaining $420 million savings estimated by PPSS are attributable to improved construction management. This $420 is equivalent to the $415 million savings estimated by CBO for acute-care bed conversions.

The CBO also states that PPSS used "an apparently faulty assumption: in calculating savings of $210 million from improved planning. Our calculations take into consideration the planning model used by VA.

THE VA PLANNING MODEL IS BASED ON PATIENT DAYS RATHER THAN CASE MIX

The VA bed need planning model is currently based on a projection model employed by the GAO that applies age grouped general population projections to an historical frequency distribution of discharges by bed section (i.e., medicine, surgery, psychiatry) multiplied by the average length of stay for each group. This product is divided by 365 and yields a projected average daily census, which, when divided by an operationally efficient occurpancy rate of 85%, yields the projected number of beds needed in the VA system. The model is then repeated, substituting the average lengths of stay in private sector U.S. hospitals, by diagnosis, in place of the actual VA lengths of stay. The result of these two calculations is a projection of needed beds that presumably corrects for the distortion of the longer than

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average stays experienced within the VA system, without determining the reasons for that distortion.

PPSS savings are attributable to a more precise sorting of patients. The planning modes should be based on DRG rather than a combination of bed categories and individual diagnosis.

Eliminate Excess Hospital Capacity
(HEALTH-5)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	No Savings Estimated					
PPSS Est.	$160	$358	$549	$769	$874	$2,710
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The PPSS has made three recommendations to reduce excess hospital capacity:

- o Regulations should be developed by the HCFA to implement Sections 2101 and 2102 of the 1981 Reconciliation Act. These sections address closing and converting underutilized hospitals and reducing reimbursement for inappropriate hospital stays.
- o Legislation be enacted to limit Medicare reimbursement when hospital occupancy falls below 83 percent, to establish maximum amount for the interest costs on new hospital borrowing, and to penalize excessive certificate-of-need approvals by imposing areawide investment caps.
- o Legislation should be enacted to replace tax-exempt hospital bonds with general obligation issues of state local governments.

The PPSS estimates that its proposal to implement Sections 2101 and 2102 of the 1981 Reconciliation Act would save about $900 million for the three-year period from 1985-1987, whereas CBO estimates either no savings or a small cost. Paying hospitals for closure and conversion could have a small cost, but would have no savings because of the new prospective payment system.

PPSS Response:

CBO states that no savings would accrue from closing/converting underutilized hospitals because of the new prospective payment system. Implementation of a prospective reimbursement system for both Medicare and Medicaid, were also PPSS recommendations, and we are glad to know they are being implemented. CBO states however, in its comments on LISAB-8 24 of 50 states have a prospective system. We recommend the prospective reimbursement system for all states. In the interim, the recommendation to implement Sections 2101 and 2102 of the 1981 Reconciliation Act can save the government money.

Consolidate Federal Highway Program Categories
(TRANS-6)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 21	$ 71	$ 48	$ 43	$ 45	$ 228
PPSS Est.	124	275	407	561	612	1,979
PPSS Above/(Below)						
Amount	$103	$204	$359	$518	$567	$1,751
Percent	490.5%	287.3%	747.9%	999+	999+	768.0%

CBO/GAO Comments:

CBO's analysis does not confirm that states would need less funding for highway safety if programs were consolidated. Though some states do not need as much money for specific programs as is currently apportioned (for example, the highway/railroad crossing program), the states can transfer up to 40% of the apportionment; a state that can show that the program's purposes have been met can transfer the full Federal amount. A consolidated program, therefore, might not significantly change states' priorities. There is no evidence that states would reduce their safety-related projects; in fact, many observers suggest that states could use increased funding for hazard-elimination projects.

PPSS Response:

PPSS analyses include a recommendation to increase flexibility in transferring funds among program categories. This is not the point of the PPSS recommendations. By eliminating marginal programs, with specific requirements for how funds are to be used, limited resources (program dollars) will be apportioned more efficiently -- i.e., marginal projects would be dropped. The states would have no incentives to transfer funds. PPSS analyzed each program recommended for elimination to determine the likely disposition of the projects in it. Savings of $297 million are based on eliminating 44.7% of the $665 million budgeted in 1982 for projects under 24 programs.

Improve Procurement Policies for the Strategic Petroleum Reserve
(ENERGY-7)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 70	$ 50	$ 60	$ 70	$ 40	$ 290
PPSS Est.	396	622	473	506	134	2,131
PPSS Above/(Below)						
Amount	$326	$572	$413	$436	$94	$1,841
Percent	465.7%	999+	688.3%	622.9%	235.0%	634.8%

CBO/GAO Comments:

This issue involves savings from five specific recommendations: Exempt the SPR from Cargo Preference Act requirements, reduce the fill rate to avoid the use of costly interim storage capacity; avoid installation of duplicative metering devices; use fixed-price lump-sum funding for future construction projects; and manage the SPR as a government-owned contractor-operated facility.

CBO and PPSS are in agreement on savings resulting from exemption from the Cargo Preference Act. CBO does not estimate savings from a reduced fill rate because this action was already taken for FY 1984 subsequent to the PPSS review.

CBO also does not estimate savings from its baseline from not acquiring additional meters because these are future purchases that could be avoided, not savings from current funding levels. No plans to acquire these additional meters currently exist.

CBO also does not estimate savings from providing lump-sum funding construction projects or from managing the SPR as a GOCO.

PPSS Response:

Simply because a lower fill rate below legislatively recommended levels was approved for FY 1984 does not mean that savings are not possible if similar actions are taken in fiscal years 1985-1989 and, thus, PPSS savings are still valid. PPSS estimated savings by foregoing installations of the metering devices were made in response to recommendations of the IG that such devices be installed while the survey was being conducted. That they will not is good news to PPSS.

PPSS considers its estimated savings through conversion to GOCO management and through the use of lump-sum contracting to be conservative, not exceeding $9 million in any one year.

Improve Timber Sales Cash Management
(AG-41)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$170	$ 275	$190	$(100)	$(110)	$ 425
PPSS Est.	631	1,019	743	815	-	3,198
PPSS Above/(Below)						
Amount	$451	$ 744	$553	$915	$110	$2,773
Percent	265.3%	270.5%	291.1%	915.0%	ND	625.5%

CBO states that PPSS estimates are on a present-value basis rather than a budgetary basis.

PPSS Response:

PPSS estimates are of a planning quality basis. However, since the recommendation to impose a flat payment schedule on future timber contracts generates acceleration of Government receipts, the present value analysis shows the savings attributed to closing the financing gap. The gap results from the lag in payments of timber harvests versus timber sales contracts, i.e., payment and harvesting of timber usually occurs in the last year of four-year contracts. Imposition of a flat payment schedule shifts the financing of timber investment from the Government back to the contract holders. Thus, while total receipts theoretically remain unchanged, the timing of payments shifts to earlier payments, realizing savings to the Government. Considering there is a time value or investment value of money, Present Value calculates the benefits of receiving money now rather than at some future date. In as much as the accelerated payments mean reduced "investment" in Government deficits, there is a value to receiving this payment sooner rather than later which the Government realizes, but does not record or account for.

Sell Unneeded Public Land
(INT-1)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ 10	$ 15	$ 25	$ 35	$45	$130
PPSS Est.	171	270	190	201	-	832
PPSS Above/(Below)						
Amount	$161	$255	$165	$166	(45)	$702
Percent	999+	999+	660.0%	474.3%	(100.0)%	540.0%

CBO/GAO Comments:

CBO states that it is very unlikely that sales approaching the level assumed by PPSS could be accomplished within a few years.

PPSS Response:

The PPSS proposal calls for accelerating efforts to sell unneeded public land. Based on Government study and classification of land identified for potential transfer, PPSS estimated the potential for increased revenues. Administration efforts to expedite land sales receipts have fallen short of expectations. This is due to the complexities surrounding the disposal of Federal land and the time-consuming process of identifying and selling such land. Land previously identified as unneeded has been reclassified over the years. PPSS recognized this problem and considered that a good deal of land that had already been identified as unneeded could be sold. More effective management and disposal of unneeded land could help implement the sales of these lands as they have been slow due to various constraints.

Additionally, PPSS recognized and took into consideration that sale of land would, in some cases, result in lower PILTs. Also, PPSS recognized that the proposal to earmark land sale revenues to the general fund require a change in law.

Improve Management of Outer Continental Shelf Oil and Gas Leasing Program
(LAND-1)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$46	$99	$142	$190	$203	$680
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The PPSS assumed that 20% of the Outer Continental Shelf leases sold in 1983 used less than optimal bidding systems. The commission then took 20% of an estimate of all 1983 OCS receipts -- including royalty payments and bonuses -- and assumed arbitrarily that bonuses were 5% lower than they would have been if the optimal bidding system were used.

CBO states that not only was the PPSS incorrect to apply its analysis to total OCS receipts (bonuses and royalties) rather than to bonus receipts only, but the analysis and estimates are necessarily arbitrary. The total effects of alternative bidding systems are unknown. The demand for OCS tracts could fall if higher bonuses are required. Moreover, lower bonuses could lead to greater receipts in the long run if they induce firms to offer higher royalties on oil and gas discovered and produced.

PPSS Response:

In response to the second point, it is not clear that CBO is saying anything contrary to PPSS. To quote page 11 of the Land/Facilities/Personal Property Task Force Report:

> The MMS should continue to evaluate alternative royalty systems to garner higher Federal revenues over the long run, even though short-term revenues (bonuses) may suffer. The use of alternative systems, however, should only be used when the data support such experimentation and not on a predetermined percentage of all lease sales.

PPSS pointed out that short-term benefits (bonuses) must be weighed against longer-run revenues (royalties), as does CBO. In regard to the first point, the 5% estimate may appear arbitrary, but it is certainly more substantive than anything offered by CBO.

Impose User Fees for Certain Coast Guard Services
(PRIV-8, TRANS-19, USER-16)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ 690	$ 740	$ 760	$780	$810	$ 3,780
PPSS Est.	179	387	562	747	792	2,667
PPSS Above/(Below)						
Amount	$(511)	$(353)	$(198)	$(33)	$(18)	$(1,113)
Percent	(74.1)%	(47.7)%	(26.1)%	(4.2)%	(2.2)%	(29.4)%

CBO/GAO Comments:

CBO/GAO discussion focuses on various methods of calculating savings but does not refute PPSS calculations since different assumptions lead to different data. The user fee and privatization proposals would not jeopardize existing programs or weaken any Coast Guard operations significantly. Fees for recreational boaters would average less than $20 per boat. The U.S. fishing industry has not fared well in recent years, and immediate Federal recovery of both operating and capital Coast Guard spending could increase this industry's costs by as much as 10%.

GAO supports the recommendation that user fees be established for Coast Guard services benefiting specific groups. GAO also believes that transferring certain activities to state or local governments and contracting out selected functions to private firms could help the Coast Guard handle its growing work load, reduce costs, and redistribute resources to missions with the highest Federal priority.

PPSS Response:

CBO/GAO analyses supports PPSS recommendations. Regarding the commercial fishing industry, if Congress or the Administration wishes to subsidize a particular segment of private industry or a specific group of users, this subsidy should be direct and not hidden so that taxpayers can determine whether they want the subsidy to continue. Further, if an industry becomes an economic liability, it may be preferable to abolish subsidies so that more productive industry sectors will not be at a disadvantage.

Reduce Costs of Power Marketing Administrations
(PRIV-2, ENERGY-19, USER-5)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 0	$ 280	$ 875	$ 905	$ 960	$ 3,020
PPSS Est.	4,572	7,327	5,522	6,063	1,050	24,534
PPSS Above/(Below)						
Amount	$4,572	$7,047	$4,647	$5,158	$ 90	$21,514
Percent	ND	2,516.8%	531.1%	569.9%	9.4%	712.4%

CBO/GAO Comments:

The Federal investment in the power-related facilities of the PMAs totaled about $12 billion by the end of 1982. Under current law, the PMAs must repay this investment within a "reasonable period," and pay interest on the unpaid balance. The schedule for repaying the investments is determined administratively; interest rates also are set administratively, unless specified in a project's authorizing statute. The interest rate paid on these investments currently averages about 3%.

The commission recommends that all PMAs be required to make up promptly all of the deficiencies in the repayment of Federal investments, repay all remaining investments according to a straight-line amortization schedule, and pay the current Treasury rate on the unpaid investments, except where prohibited by law.

Under the commission's user charge proposal, the PMAs would pay for the benefit of using Federal water resources to produce electricity. This fee would be analagous to the Government's royalty from the production of Federally owned oil and gas resources.

The commission also proposes selling the power-related facilities of the five PMAs to nonfederal entities. The propsective purchasers -- public utilities, cooperatives, or investor-owned utilities -- would pay the Federal Government for the facilities and would assume responsibility for marketing the electricity. The commission appears to assume, however, that Federal agencies would continue to operate and maintain the dams because of their multipurpose nature. The prospective buyers would pay those agencies for their operating and maintenance costs through a user fee like the one proposed above.

The effect of charging the Treasury interest rate on unpaid obligations cannot be estimated precisely, because the current statutory limitations on interest rates vary from project to project, and data on those limitations are not readily available at this time. For this estimate, CBO assumes that the Treasury interest rate could be applied to at least 25% of the outstanding investments. CBO also assumes that savings would not begin until fiscal year 1986, because of the lead time needed to revise administrative policies and to include the changes in PMAs' electric rates.

CBO's estimated outlay savings from the user fee are estimated at $1.8 billion over three years, even though no savings are expected to occur

(Continued on next page)

Reduce Costs of Power Marketing Administrations (Continued)

until fiscal year 1987, because of the lead time needed for the legislative, administrative, and regulatory actions.

CBO assumes that it would take at least five years to complete the legislative, administrative, contractual, and financial transactions involved in the sale of the PMA operations.

While PPSS recommendations would raise PMA rates by approximately 2.4¢ per kwh, or by 80%, they would still be less than the national average.

In its analysis of the proposal to sell the PMAs, CBO states that the PPSS appears to assume that Federal agencies would continue to operate and maintain the dams.

CBO finds a major obstacle to sale of the PMAs to be that Federally generated power is generally lower cost than other alternatives and trying to take away any preference to this power may be politically impossible given that Federal power is marketed in 38 states.

PPSS Response:

The major difference between CBO and PPSS savings estimates in this area result from CBO's belief that any change in regard to PMA rates will take approximately one and a half years to implement, with the sale of the PMAs requiring more than the five years which are the relevant range of this analysis.

As CBO states, this low cost (subsidized) power is marketed in 38 states, and there are many who would fight attempts to raise PMA prices to market levels.

PPSS is more optimistic, primarily because we are businessmen, not politicians. The Energy Department is already negotiating with the state of Alaska for the sale of the Alaska PMA. If Alaska chooses to provide subsidized power within its boundaries, that is their business, but there is no reason that someone living in San Diego, paying 6 times more for electricity, should be expected to pay for that subsidy.

PPSS believes that because the PMAs, particularly Bonneville, have continued to fall short of meeting their statutory obligations to repay their Federal investment in a businesslike manner, in the interest of fairness to all taxpayers, these facilities should be sold as soon as possible.

PPSS does not understand why CBO and GAO are so concerned with who operates and maintains the dams. The PMAs do not have this responsibility currently, and there is no reason to think they will after they are sold.

Encourage Electronic Transfer of Federal Funds
(ASSET-6)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$1,150	$ 10	$ 10	$ 10	$ 10	$ 1,190
PPSS Est.	781	1,725	$2,631	$3,781	$4,083	$13,001
PPSS Above/(Below)						
Amount	$ (369)	$1,715	$2,621	$3,771	$4,073	$11,811
Percent	(32.1)%	999+	999+	999+	999+	999+

CBO/GAO Comments:

According to CBO, because relatively little voluntary conversion to direct deposit/electronic funds transfer (DD/EFT) is likely, the major budget impact of the PPSS proposal results from the change in mailing date for payroll and benefit checks. Assuming a steady flow of federal payroll and benefit disbursements throughout the fiscal year, CBO estimates that the mailing of checks an estimated three days later than is current practice beginning in fiscal year 1983 would result in a one-time outlay reduction in 1985 of approximately $1.15 billion.

PPSS Response:

CBO and PPSS are generally in agreement in this issue except that CBO has decided against including interest savings resulting from the cash flow improvement in its analysis.

Reduce the Size of Government Vehicle Fleets
(PRIV-7)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$160	$130	$ 15	$(35)	$140	$ 410
PPSS Est.	103	194	238	292	271	1,098
PPSS Above/(Below)						
Amount	$(57)	$ 64	$223	$327	$131	$ 688
Percent	(35.6)%	49.2%	999+	934.3%	93.6%	167.8%

CBO/GAO Comments:

CBO stated savings represent only about one-fourth of the $1.5 billion in three-year savings estimated by PPSS.

PPSS Response:

Most of the difference as noted by CBO reflects CBO's exclusion of the postal fleet, because USPS is off-budget.

Make Timely Federal Payments For Procurement and Grant Programs
(ASSET-4)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.			Savings Not Estimated			
PPSS Est.	$992	$1,690	$1,421	$1,667	$568	$6,338

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

CBO does not estimate savings to its baseline because the Treasury Department has already taken action on Task Force recommendations. CBO states the PPSS proposal to mark purchase vouchers with a suspense date before submitting them to the Treasury represents current practice and it is likely that the savings possible from this proposal have already been achieved

The Treasury is also implementing a system for grant programs that would not release federal grant money until a check for grant-related activities is actually cashed. This system should be substantially in place by about the end of 1985. The magnitude of the savings resulting from this system cannot be accurately assessed. The Bureau of Government Financial Operations has no data on the amount of grant funds that the states have drawn upon early. At any rate, because the program is already being implemented, savings are implicit in the CBO baseline.

PPSS Response:

While CBO states that marking purchase vouchers with a suspense date is current practice, the Assistant Secretary of Administration for the Department of Treasury contacted during the PPSS review was certainly not under that impression at that time. It is not clear that CBO's information is accurate in this instance. Regardless, simply having the suspense date is only half the battle. Treasury personnel must pay attention to that date in making their disbursements.

In the case of grant-related activities, CBO assumes that savings from the new Treasury grant system expected to be substantially in place by 1985, and are implicit in its baseline. Since CBO cannot quantify what savings from this system may be, PPSS feels its figures are representative.

Improve Verification of Applicants' Eligibility for Housing Subsidies (HUD-5)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$199	$434	$626	$857	$925	
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO basically concludes that, even if ineligible households were made available through computer matching/identification, there would be no net savings to the Federal Government since there are far more eligible households than available units.

PPSS Response:

PPSS recognized this factor by stating that proper reallocation to qualified recipients of Section 8 Housing Program benefits could be realized. Specifically, "Savings then are in the form of a redeployment of funds that are now going to ineligible recipients. The team did not look into the savings based on recovery. However, if the recertification process using computer matching is put in place, we believe the recovery would be great."

The IG estimated that between 12% and 17% of the tenants receiving housing subsidies under the Section 8 Program falsify information to gain benefits. PPSS tried to determine the total dollar savings if the verification process were improved and the percentage of the applicants filing false statements were eliminated or reduced. PPSS found that HUD does not have an effective system to verify an applicant's income. Since a major criterion for program eligibility is the applicant's income, then proper reporting of applicant's income must be assured to reduce the improper reporting of applicant's income which has contributed to misdirected subsidy payments by the Government. In addition, although there are procedures on how to qualify an applicant for Section 8 benefits, PPSS found various methods employed in different locations.

PPSS recommended, therefore, that a computer-matching program be instituted within HUD to enhance the eligibility verification of applicants for benefits.

Improve DOD Long-Range Planning and Management for Research and Development (R&D-1, R&D-2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$754	$1,635	$2,278	$3,008	$3,431	$11,106
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO believes that the commission proposals, to establish goals based on national defense priorities, to develop long-range planning concepts and procedures, to use long-range planning for budgeting and operational management purposes, and to introduce multiyear budgeting for R&D, lack sufficient detail for a valid cost estimate. While it is clear that elimination of some staff positions and R&D projects would lead to savings, failure by the commission to identify the number of positions or specific projects to be eliminated makes a cost estimate impossible. Based upon the data provided by the PPSS, CBO-GAO cannot even confirm the order of magnitude of savings projected by the PPSS.

In addition, the commission has overlooked one procedure -- information management -- that is essential to the successful implementation of long-range planning. Data bases and statistical information are the underpinnings of an effective long-term planning system. Information management is especially critical at DOD because of the diversity of its decisions and the need for cross-service analysis. Better structuring of information resources between the three services could assist in solving the perceived problem (cited several times by the commission) of poor coordination within DOD.

PPSS Response:

In regard to the lack of a recommendation for improved R&D information, if CBO had read on in the R&D Task Force report to issue R&D-6, Research Program Reporting, this point is addressed at length there. It is also discussed in issue OSD-19. The entire information problem in the Federal Government is discussed fully in the special report Information Gap in the Federal Government.

In response to CBO's first point, PPSS would welcome a more thorough and precise analysis of the savings potential by CBO.

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Increase Use of Performance Specifications for Federal Construction Projects (CONST-18)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$15	$33	$54	$77	$81	$260
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO states that it is unable to estimate the budgetary impact of this proposal. CBO also questions the assumption that 100% of the contracts would be eligible for performance specifications, thereby overstating the base of eligible projects.

PPSS Response:

PPSS recognized that total savings are difficult to estimate because performance specifications cannot be universally applied to all projects for all agencies. PPSS conservatively assumed that savings can be realized by the application of performance specifications to Federal construction programs. The application of performance specifications are derived from examining a considerable volume and variety of construction contracts in terms of the two lowest bidders on a project. The difference varied between 4% and 5%. Because of the limited number of specific examples, this potential savings was adjusted to 2%. Based on experience in construction programs and the extent of Federal construction obligation which would be subject to performance specifications was determined totaling $20 billion, or $400 million annually at 2%. PPSS believes its estimate to be of a planning quality and not of a budget quality.

Upgrade Obsolete Computer Hardware and Software Resources (ADP-4)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$792	$1,730	$2,151	$3,474	$3,823	$12,334

PPSS Above/(Below)

Amount Percent	NA

CBO/GAO Comments:

CBO questions the savings associated with this issue. They stated that the commission incorrectly applied savings from a GAO study. According to CBO, PPSS apparently interpreted GAO savings estimates on an individual CPU basis rather than as savings attributed to each agency. Further, it was stated that GAO findings should not be used as representative of the entire Federal inventory.

PPSS Response:

PPSS savings estimates were prepared as a planning guide rather than a budget product. Assumptions were made as to the number of systems to be replaced and the approximate savings of replacement per system. This estimate of $350,000 per year was used as the potential savings that can be experienced through complete upgrading, i.e., a planning guide. Total savings includes the assumptions that the CPUs replaced are the oldest, and that an equal number of systems are replaced each year. The average age of computers are 10.1 years. Even after replacing those 5 years or older, the average age of CPU would drop to 4.4, still behind the private sector average.

Change Civil Service Retirement Accounting and Investment Practices
(FRS-8)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$1,850	$1,900	$1,900	$2,250	$2,250	$10,150
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The PPSS report lacks sufficient detail to estimate the budgetary impacts of the proposed changes in investment practices. CBO has limited its estimate of savings to the impact of the accounting recommendations. CBO estimates that increase in CSRS contributions from the U.S. Postal Service (USPS) and other off-budget agencies, which are treated in the budget as offsetting receipts, would reduce Federal outlays and budget deficits by $10.2 billion through 1989. The PPSS, unlike CBO, estimates no quantifiable savings from increasing Federal agency contributions to the CSRS system.

The PPSS also suggests purchasing $20 billion of AAA bonds by 1989, or about $4 billion per year. But near the end of calendar year 1983 (in part because several bond ratings had been downgraded), about $33.4 billion was outstanding in AAA bonds. New issues alone amount to only about $1.2 billion per year. Thus in order to meet the PPSS target, the CSRS fund would have to absorb about one-half of total holdings by 1989.

The PPSS' recommendations would mean a controversial and precedent-setting change in public policy. In effect, the Government would be borrowing from the public in order to invest in AAA bonds, and trying to optimize investment returns by taking acceptable risks -- much like a private insurance company or bank. Such a major policy change for CSRS could be extended to other Government trust accounts that fund programs like Social Security and Federal aid to highways. However, if Congress wants a portion of the CSRS fund to generate interest based on AAA bond rates -- without forcing the sale of U.S. securities and the purchase of corporate bonds -- it can so stipulate by amending the law.

PPSS Response:

PPSS did not consider off-budget receipts to calculate savings for this issue. However, CBO is correct and PPSS agrees that $10.2 billion over 5 years could accrue if the full costs of off-budget operations (in this case, retirement) were allocated to the users of these services (mainly the Postal Service). CBO notes that postal rates would increase only 10% between 1984 and 1990 as a result of this recommendation.

Regarding investment policies, PPSS noted that the impact of this shift from Federal securities to corporate securities needs to be studied. Further, PPSS noted that $20 billion invested over the next 5 years would be

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only 4% per year of the approximately $102 billion state and local governments have currently invested in corporate bonds and stocks.

If the Government wishes to extend this investment policy to other areas, PPSS finds no objection. PPSS was concerned in this issue with the CSRS. Other private sector investments might be possible -- this is exactly the type of constructive idea and discussion that PPSS hoped to stimulate.

Raising CSRS U.S. marketable security rates to match AAA bond rates would serve no purpose, however. It would merely shift costs from one Government agency to another -- a useless exercise.

Restrict Short-Term and Long-Term Disability Benefits for Federal Employees (PER-4, FRS-3, FRS-4-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 40	$ 115	$ 200	$ 295	$ 385	$1,035
PPSS Est.	468	1,033	1,574	2,270	2,443	7,788
PPSS Above/(Below)						
Amount	$428	$ 918	$1,372	$1,975	$2,058	$6,753
Percent	1,070.0%	798.3%	687.0%	669.5%	534.5%	652.5%

CBO/GAO Comments:

The commission's calculations suggest that the Government would save one day's pay by reducing by eight hours the average annual amount of sick leave used. In reality, such a change would only affect payroll costs to the extent that "sick workers" spent more time on the job and thus reduced the Government's total personnel requirement. Some of the recouped job time would probably reflect the return to work of borderline but less productive workers. The PPSS' retirement cost comparisons are measured over the long-term using an actuarial cost basis, rather than Federal outlays through 1989.

For some people, the PPSS' proposal would delay receiving first checks for five months. For others, no disability benefits would be available, compelling them either to work at any job regardless of level, shift to regular retirement, or leave the Federal service without continued Federal income. This proposal would not affect benefits being received by persons currently disabled. By restricting eligibility without increasing benefits, the PPSS proposal to change long-term disability falls short of comparability with private sector practice, which typically provides a higher level of benefits for eligible workers. If, however, Federal disability benefits were increased accordingly, the total Federal cost of disability would rise by about 50%.

With regard to sick leave, most Federal workers already use their accumulated days before initiating disability benefits. A disabled worker with less than ten years of service, however, could not have accumulated five months of sick leave to use. This means that if a person were unable -- for whatever reason -- to continue drawing salary (by taking annual leave, for example), he or she would suffer financially.

About 300,000 employees -- nearly two-fifths of the Federal work force -- already have accumulated more than 130 days of sick leave. Under the PPSS proposal, these workers could not accumulate any more sick leave and could not credit any of their current reserve toward retirement. Consequently, most of these individuals would use the additional 13 days they accrue each year and, before retiring, might deplete their accumulated reserves by taking more time off.

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Restrict Short-Term and Long-Term Disability Benefits for Federal Employees (Continued)

PPSS Response:

PPSS, in comparing private sector and Government usage of sick time, concluded that employees are taking sick leave because of a sense of entitlement and lax administrative oversight -- i.e., employees who are not sick are using sick leave. Therefore, PPSS is not recommending that "sick" employees be forced to return to work.

CBO/GAO is correct, however, in noting that cost comparisons are based on the long-term cost (since that is the standard, private sector practice) rather than outlays in 1985-1989.

PPSS took note that long-term disability benefits in the private sector offer greater reimbursement than do Government benefits. PPSS savings would occur even after increasing Federal disability payments to the level of payments received in the private sector. By increasing benefits, comparability would be achieved.

Regarding the 10 years necessary to accumulate 130 days of sick leave to cover short-term disability, this "gap" is standard private sector practice. For example, at W.R. Grace & Co., it takes 10 years to accumulate the maximum 16 weeks of short-term coverage. After 6 years, 8 weeks are accumulated (compared to the maximum 15.6 weeks Federal employees could accumulate). Therefore, the PPSS proposal is no "worse" than current private sector standards.

New York State does have a disability program to reimburse disabled employees and would cover part of that "gap." However, the maximum weekly payment (for those weeks not covered by the Grace short-term disability plan) is $135 -- and for which the employees pay $2.60 per month in premiums.

Regarding increased sick leave usage, PPSS notes that:

> Agency management, however, has the responsibility for administering the provisions of the statute and the right to require satisfactory evidence of illness. In the absence of such evidence, the manager may elect not to grant sick leave and, thereby, require the employee to use another type of leave or be charged absent without leave.

Increased control over sick leave usage was the PPSS objective in this issue and, since agencies have authority to limit unwarranted usage, no added costs should be incurred.

Improve General Schedule Job Classification
(PER-5)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ 60	$ 100	$ 230	$ 410	$ 545	$ 1,345
PPSS Est.	775	1,708	2,607	3,753	4,046	12,889
PPSS Above/(Below)						
Amount	$715	$1,608	$2,377	$3,343	$3,501	$11,544
Percent	999+	999+	999+	999+	642.4%	858.3%

CBO/GAO Comments:

Most PPSS savings would result from recommendations that would accelerate efforts to correct agency "overgrading" of positions -- that is, setting them at levels too high -- and would restructure the General Schedule (GS) work force to lower its average grade. The restructuring could entail abolishing positions in the middle-management grades 11 through 15.

Restructuring the work force could mean the loss of 40,000 Federal jobs in grades 11 through 15, causing a number of problems for Federal managers. Reducing upper-graded positions without providing for rehiring at lower grades -- as suggested in PPSS calculations -- would compound the problems of the restructuring effort.

GAO cautions that the PPSS' basis for recommending reductions in the average grade of Federal positions may be flawed. In making its comparison with the private sector, the PPSS used a sample of Federal workers that did not include Federal clerical and technical positions, many of which fall at lower grades.

Correcting misgrading, according to CBO estimates, could generate near-term budgetary increases accumulating to $0.1 billion through 1989. Unlike the PPSS, which estimates three-year cumulative savings of $0.6 billion, the CBO estimates incorporate the effects of job turnover and are adjusted downward to take account of statutes that protect an employee's current pay and grade. The CBO estimates assume that nearly all overgraded positions would be identified and corrected through downgrading by the end of fiscal year 1985. If managers fail to make vigorous efforts to correct misgrading or apply alternatives to downgrading (such as restructuring jobs to justify higher grades), budgetary effects would diminish.

PPSS Response:

CBO/GAO have not analyzed this issue correctly. PPSS does not propose restructuring the General Schedule (GS) based only on its analysis of the proportion of high to low graded personnel in professional, administrative, and technical positions. PPSS also found that:

1. The distribution of employees in high grades in specific professions (engineers, attorneys, accountants, chemists, and directors of personnel) is 1.5X-2.3X as great as in the private sector.

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Improve General Schedule Job Classification (Continued)

2. The average GS grade has increased from 5.25 in 1949 to 8.03 in 1974 to 8.48 in 1981.

3. In 1974, 56.1% of all GS employees were in grades 7-15. In 1981, that percentage was 61.0%, or 4.9% pts. higher.

The GAO/CBO assumes that jobs would be eliminated rather than shifted to lower grades. This is not accurate, as the CBO/GAO analysis states:

> ...the Administration is already moving ahead on the PPSS recommendation to restructure the Federal work force. It is reportedly considering a four-year phased reduction, totaling 8 percent, in the number of jobs graded 11 through 15. OMB could enforce these reductions, beginning in 1985, through cuts in agency salary budgets. The Administration targets, which conform with PPSS recommendations, would permit implementation through normal attrition without layoffs. [Emphasis added]

Regarding misgrading, PPSS estimates are based on adjusting reduction-in-force procedures as is recommended in issue PER-11, Reduction in Force. Further, whether agency managers aggressively pursue PPSS recommendations or not is immaterial to a calculation of potential savings.

As PPSS has repeatedly noted, not implementing previous suggestions is a major reason PPSS was able to find $424.4 billion in cost savings/revenue enhancements.

Improve Social Security Administration Management
(SSA-4)

	Annual Savings ($ Millions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	$ -	$ -	$ 50	$110	$180	$ 340
PPSS Est.	136	302	449	633	716	2,236
PPSS Above/(Below)						
Amount	NA	NA	$399	$523	$536	$1,896
Percent	NA	NA	798.0%	475.5%	297.8%	557.6%

CBO/GAO Comments:

CBO agrees that savings could be achieved from improved SSA management procedures, although how much is difficult to say. CBO estimated that productivity would improve by an extra 11% compared to PPSS increase of 50%. According to CBO, other differences derive from assumptions regarding implementation and timing. CBO states that PPSS assumes full implementation in the first year.

PPSS Response:

PPSS assumes gradual implementation of savings from improved productivity through the five-year budget period. PPSS has documented the private sector sources for its estimate of productivity increases. The basis used for savings states that it is not reasonable to expect any program to totally capture the 50% estimated unproductive time that is spent on a job. PPSS, therefore, assumed that it may be reasonable to expect half of that time can be recaptured and utilized productively through the installation of a supervisory planning and control system, e.g., to increase an organization's level of productivity.

Improve Productivity of Federal Maintenance Personnel
(PROP-6)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	-	-	$ 40	$ 85	$141	$ 265
PPSS Est.	$134	$307	$464	$668	$721	$2,294
PPSS Above/(Below)						
Amount	$134	$307	$424	$583	$581	$2,029
Percent	ND	ND	999+	685.9%	415.0%	765.7%

CBO/GAO Comments:

The PPSS estimates that efficiency gains in property maintenance would generate a five-year deficit reduction of $1.1 billion -- nearly four times the CBO estimate of $0.3 billion. The CBO calculation reflects reductions in personnel costs from a gradual productivity gain of about 10% effected over four years, beginning in 1987. The higher PPSS gain, on the other hand, reflects growth experienced by unspecified private sector establishments, and this gain is assumed to occur in the first year, not over a longer time. In contrast to the PPSS approach, CBO adjusts its estimate to take account of both implementation costs and activities for which geographic dispersion, small size, or nonrecurring nature of work impede productivity improvements.

Improvements in productivity growth at the level estimated by CBO could mean a reduction of 7,600 blue-collar jobs. Such a reduction could be achieved by attrition (not filled vacancies), rather than by laying off employees, and thus it would not dramatically effect the level of work done. By contrast, an extra productivity gain at the level assumed by PPSS would mean the loss of 28,000 Federal jobs and would necessitate layoffs. (Layoffs have budgetary consequences of their own and could actually generate costs instead of savings.)

GAO notes, however, that many of the specific PPSS recommendations, including calls for performance incentives, are consistent with those made in various GAO reports; there is ample room for improvement in current Federal productivity efforts.

PPSS Response:

Maintenance costs for real property in the Federal Government are expected to be about $3.5 billion in FY 1983. Of this total, 41% ($1.4 billion) will be contracted-out. About 50% of the remainder ($1.05 billion) represents in-house labor, whose productivity could be improved. The Task Force made a basic assumption that productivity could increase from the present Federal Government average of about 42% to the advanced private sector level of approximately 62%. This should be achievable in approximately one year after implementation.

(Continued on next page)

Improve Productivity of Federal Maintenance Personnel (Continued)

The Appendix to the Real Property Management Task Force Report notes that savings can be taken by reduction of backlog, reduction of manpower, performing in-house work previously contracted, or a combination of the three. Therefore, productivity improvements would not necessarily result in layoffs, let alone excessive layoffs.

Regarding small units, it should be noted that a comprehensive study of productivity improvement possibilities is necessary since Federal maintenance productivity ranges from 20% to 50%.

Reduce Paid Annual Leave Benefits for Federal Employees
(PER-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$175	$ 365	$ 390	$ 410	$ 430	$1,770
PPSS Est.	475	1,055	1,606	2,312	2,491	7,939
PPSS Above/(Below)						
Amount	$300	$690	$1,216	$1,902	$2,061	$6,169
Percent	171.4%	189.0%	311.8%	463.9%	479.3%	348.5%

CBO/GAO Comments:

The PPSS' estimated savings of over $1 billion per year do not reflect near-term impacts on the Federal budget. Instead, they represent the estimated value as a percent of covered payroll for annual leave earned under current policies less the value that would result under the PPSS' recommendations. Having less annual leave accrue each year would not directly reduce near-term budgetary outlays, unless Federal work force levels were reduced. The PPSS estimates, which are about twice the CBO calculation of annual near-term savings, fail to recognize that employees would tend to use almost all of the smaller amount of leave earned.

The GAO believes that the PPSS comparisons are misleading because they fail to incorporate paid time off taken in the private sector for personal reasons, which is not charged to earned vacation time. Modeling Federal work schedules after the private sector would cause Federal employees to spend less time on the job -- on average about 11 fewer hours per year. In that case, the Federal Government would need to employ 9,000 more workers and spend more for associated pay and benefits.

Further, unless agencies were authorized to advance leave, Federal workers would be unable to take vacation during the first few months of any calendar year.

PPSS Response:

PPSS necessarily took a long-term view of the budget. The private sector takes a long-term view of spending and savings so that proposals are judged based on their overall impact on operations not on the savings or costs that will occur over the next several years. This near-term short-sightedness on the part of Government is a major factor in cost reduction proposals not being implemented -- long-term savings are ignored while short-term costs or nominal short-term savings are emphasized.

Obviously, reducing annual leave would mean that current employees would be on the job longer and fewer employees would be necessary, resulting in reduced personnel costs. Contrary to the CBO/GAO statement, PPSS fully took into account that vacation accrued under PPSS recommendations would be fully taken.

Regarding the GAO contention that personal leave in the private sector was not taken into account by PPSS, the U.S. Chamber of Commerce notes

(Continued on next page)

that private sector personal leave accounted for 0.3% of payroll in 1981. With Federal annual leave costing 7.0% of direct payroll compared to private sector costs of 4.9%, the 0.3% pts. that personal leave adds to private sector costs is insignificant. In addition, PPSS analyses show that personal leave (or administrative leave) accounts for 0.5% of direct payroll in the Government versus the 0.3% cost in the private sector. On the basis of total leave, excluding sick leave, PPSS analyses show a 14.3% cost (of direct payroll) in Government versus a 12.1% cost in the private sector -- i.e., the Government 18.2% more expensive.

Regarding the last CBO/GAO comment, it was never PPSS' intention to deprive employees of vacation in the first few months of any calendar year. Private sector firms advance vacation leave, and so would the Government under PPSS proposals.

Index Federal Highway Taxes to Inflation
(USER-21)

	Annual Savings ($ Billions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$0.3	$ 1.0	$ 1.9	$ 2.7	$ 3.8	$ 9.7
PPSS Est.	0.3	0.6	0.7	1.0	1.0	3.6
PPSS Above/(Below)						
Amount	-	$(0.4)	$(1.2)	$(1.7)	$(2.8)	$(6.1)
Percent	-	(40.0)%	(63.2)%	(63.0)%	(73.7)%	(62.9)%

CBO/GAO Comments:

CBO states its estimates of revenues from this issue are significantly lower than those of PPSS because the commission does not take account of growth in revenues already expected from existing taxes. Under current law, trust fund revenues are expected to rise for three reasons: some heavy truck taxes are to be phased in, highway activity in general is projected to grow at roughly the same rate as the economy, and the sales tax on new trucks will reflect price changes. As a result, taxes will not have to be increased by the full expected rate of inflation (as assumed by the commission), and no increase at all will be needed until 1986. On the basis of current revenue projections, receipts of $2.4 billion would be needed to keep the 1985 level of revenues adjusted for inflation through 1989. Since current highway outlays exceed tax receipts, this estimate interprets the PPSS proposal as increasing only revenues and not spending. But, if authorizations rose, resulting outlays would cut the savings by about $1 billion.

The commission also disregards the fact that the highway authorizations enacted in the 1982 legislation will grow by more than the expected rate of inflation and will exceed estimated trust fund revenues (including interest) by $2 billion to $3 billion a year. As a result, increased highway revenues of about $8.5 billion would be required over the next five years just to maintain a balance between outlays and receipts.

PPSS Response:

CBO's reasoning is very curious in their issue. First it says currently legislated tax increases will virtually offset the need for a mechanism to adjust revenues to inflation. And then, in almost the same breath, CBO goes on to say that $8.5 billion in additional revenues will be needed over the next five years to balance highway outlays with trust fund receipts.

PPSS's concept of user charges is that clearly defined users should pay in full for government services, in this case for the use of the interstate and defense highway system. It was not the intention of PPSS to keep trust fund revenues at some constant but inadequate level. If highway excise taxes are increasing but still insufficient to cover outlays, they should be allowed to increase more--in this case through the use of the PPSS recommended inflation adjustment mechanism.

Limit the Use of Tax-Exempt Revenue Bonds
(EX-2)

	Annual Savings ($ Billions) 1985	1986	1987	1988	1989	Cumulative Five-Year Savings
CBO/GAO Est.	-	$0.1	$0.4	$0.8	1.1	$2.4
PPSS Est.	Savings Not Estimated					
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

CBO estimates that, if all tax-exempt financing for private purposes were eliminated as of July 1, 1984, savings over the three-year period from fiscal 1985 to 1987 would amount to $4.8 billion. CBO states that differences in savings are due to CBO's assumption that any legislation that Congress might pass would affect only new issues of tax-exempt bonds. CBO states that PPSS does not make this distinction.

PPSS Response:

The issue stems from the Health Task Force issue on tax-exempts. The Task Force estimated savings by assuming only 50% of the planned tax-exempt hospital bonds will be issued. This Task Force reviewed other areas where exempts are used. Savings were based on OMB projections of lost revenue from tax-exempt revenue bonds. PPSS used 30% of these estimates as the basis for savings.

Accelerate Payments of Withheld Social Security Taxes by State and Local Governments
(ASSET-2)

	Annual Savings ($ Billions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$ 0.7	-	$0.1	$0.1	$0.1	$1.0
PPSS Est.	0.5	0.8	0.6	0.7	-	2.6
PPSS Above/(Below)						
Amount	$(0.2)	ND	$0.5	$0.6	ND	$1.6
Percent	(28.6%)	ND	500.0%	600.0%	ND	160.0%

CBO/GAO Comments:

CBO estimates that Federal revenues would be increased by $0.7 billion in fiscal year 1985 and $1.0 billion over the 1985-1989 period. The amount is lower than the PPSS first-year estimate of $1.25 billion because of the action already taken by the Congress. In addition, the CBO estimate excludes the interest earnings attributed by the PPSS to the proposal.

PPSS Response:

CBO and PPSS differ only in terms of what Congress has already enacted in this area subsequent to the Task Force analysis. As in all other issues, CBO also excludes interest earnings on cash accelerations, though the reason for this is not stated.

Accelerate Deposits by IRS Service Centers
(ASSET-2)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$503	$825	$607	$686	0	$2,621
PPSS Above/(Below)						
Amount	NA					
Percent						

CBO/GAO Comments:

The CBO attributes no revenue gain to this proposal. Although September is a peak month for IRS deposits, most of this flow occurs in the days around the 15th; in 1983, 78% of collections for the month were deposited between the 13th and 23rd of the month. The average daily deposit was $568 million (for income and employment taxes, not withheld) but the deposit on the 30th was only $79 million, and on the first business day in October was only $77 million. This suggests that the peak period has passed by the end of the month, and that the IRS is back on its standard 24-hour turnaround of check deposits. Thus, a one-day gain is not likely to be achieved at the end of the month. Moreover, even if a day were gained, the cash acceleration would be only about $80 million, instead of the $664 million estimated by the PPSS.

PPSS Response:

CBO appears to have missed the point of this issue entirely. PPSS does recommend a specific one day that IRS deposits are accelerated, but rather an acceleration of all IRS receipts throughout the year by one day. This results from a more rational system of check deposit and more effective use of IRS' advanced Document Processing System.

Accelerate Deposit of Federal Receipts
(ASSET-2, ASSET-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	Savings Not Estimated					
PPSS Est.	$899	$1,365	$993	$1,098	-	$4,355
PPSS Above/(Below)						
Amount Percent	NA					

CBO/GAO Comments:

CBO agrees that in some instances by PPSS proposals would accelerate the government's cash flow, reducing the time payers have use of their funds--that is, withdrawals from their bank accounts would occur sooner than at present. However, CBO questions in several cases the amount that PPSS expects can be accelerated.

In 1983, the federal government collected $857 billion in tax and nontax receipts. Of this amount, roughly $529 biolion was collected through the federal tax deposit system and $94 billion through TFCS; $31 billion was attributable to intragovernmental transactions. Thus, about $200 billion in receipts (about $145 billion in tax and $55 in nontax) from the public were not paid through an accelerated collection method. This amount is basically the maximum level of receipts that might be subject to acceleration under the above proposals.

CBO analysis suggests that the PPSS savings estimate for lockboxes ($4.9 billion) is probably too high. The estimate is based on $140 billion in receipts being accelerated by 12.6 days. As a significant share of these receipts are tax payments, there may be objections to the use of lockboxes for reasons of confidentiality--that is, taxpayers might object to commercial banks having access to their tax returns. Thus, the potential receipts that could be collected by lockboxes may be significantly less. If only nontax receipts ($55 billion) were collected through lockboxes, the revenue gain would be lowered to about $1.9 billion (using the PPSS methodology).

PPSS Response:

CBO denied PPSS estimates of savings through using various accelerated funds transfer techniques without offering any alternative estimates. A thorough analysis should have included CBOs own estimates, particularly since CBO apparently agrees with the thrust of PPSS recommendations.

Extend Federal Tax Deposit System to Individual Estimated Tax Payments (ASSET-3)

	Annual Savings ($ Billions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$0.1	$0.1	$0.1	$0.1	$0.1	$0.3
PPSS Est.	0.3	0.5	0.4	0.4	-	1.6
PPSS Above/(Below)						
Amount	$0.2	$0.4	$0.3	$0.3	ND	$1.3
Percent	200.0%	400.0%	300.0%	300.0%	ND	433.3%

CBO/GAO Comments:

CBO claims that although the PPSS proposal would accelerate the Treasury's cash flow, it would not increase fiscal year receipts. Because none of the estimated tax due dates overlap the end of a fiscal year, CBO estimates that there would be no change in baseline revenues. CBO's savings estimate for this proposal does not take account of interest savings. The PPSS estimates that just the use of FTD for final reconciliation would generate interest savings of $47 million in the first year and $156 million over a three-year period; no increased revenues are attributed to cash acceleration for any fiscal year, however.

PPSS Response:

It remains unclear to PPSS why CBO continues to disregard the fact that if receipts are accelerated interest earnings (or conversely interest that will not have to be paid because of reduced borrowings) will increase. This is true regardless of the fiscal year, month, or day that receipts can be accelerated.

Accelerate Collection of Alcohol and Cigarette Taxes
(ASSET-3)

	Annual Savings ($ Billions)					Cumulative
	1985	1986	1987	1988	1989	Five-Year Savings
CBO/GAO Est.	$0.7	-	-	-	-	$0.8
PPSS Est.	0.4	0.5	0.4	0.4	-	1.7
PPSS Above/(Below)						
Amount	$(0.3)	NA				$0.9
Percent	(42.9)%					112.5%

CBO/GAO Comments:

CBO estimates that this proposal would raise $0.7 billion in 1985 and $0.8 billion over the 1985-1989 period. This saving is attributable to the cash acceleration received by the Treasury. The total three-year savings estimated by the PPSS is $1.2 billion. The PPSS estimate of the first-year saving from cash acceleration is $881 million, about the same as the CBO estimate. The CBO overall estimate, however, excludes interest earnings of $294 billion included by the PPSS for the proposal.

Making distillers pay their taxes within an average of seven or eight days after shipment, would require the companies to finance their tax payments over the 65-70 days until they received payment. This cost, according to producers, would be an excess burden on their operations. On the other hand, distillers could require more immediate payment for the goods they ship. It is not clear why the Treasury should assist producers in extending trade credit to their customers.

PPSS Response:

CBO and PPSS are generally in agreement on this issue except with regard to interest earnings in the cash acceleration which CBO ignores. It is also not stated why there is a $200 million dollar loss estimated by CBO to occur in the second year of implementation. PPSS sees no reason to anticipate this.

Accelerate Collection of Customs Duties
(ASSET-3)

	Annual Savings ($ Millions)					Cumulative Five-Year Savings
	1985	1986	1987	1988	1989	
CBO/GAO Est.	$0.3	-	-	-	-	$0.4
PPSS Est.	0.4	0.5	0.4	0.4	-	1.7
PPSS Above/(Below)						
Amount	$0.1	NA				$1.3
Percent	33.3%					325.0%

CBO/GAO Comments:

CBO estimates that the PPSS proposal to eliminate the ten day grace period for collection of import duties from brokers would raise $0.3 billion in 1985 and $0.4 billion over the 1985-1989 period. The PPSS savings estimate from cash acceleration is about the same as the CBO estimate. The overall CBO estimate is lower because it excludes the interest earnings estimated by the PPSS for the proposal.

PPSS Response:

CBO and PPSS are generally in agreement except, once again, for interest earnings attributed by PPSS to accelerated cash flow.

GAO also concurs with the PPSS proposal and recommends that the Treasury either reduce the deferrals allowed importers or collect interest on the deferred duties.

PPSSCC SAVINGS RECOMMENDATIONS RELATED TO
FEDERAL GOVERNMENT RECEIPTS AND OUTLAYS BY FUNCTION
(OMB CASH)

($ MILLIONS)

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
			RECEIPTS/OUTLAYS						
		SUB-FUNCTION CODE	1983	1984	1985	1986	1987	1988	1989
	INDIVIDUAL INCOME TAXES								
(1)	BASE	121	$ 288,938	$ 293,418	$ 332,054	$ 363,186	$ 401,612	$ 446,723	$ 494,241
	SAVINGS								
(2)	ASSET-02	121	0	67	152	249	184	204	0
(3)	ASSET-03	121	0	48	108	177	131	145	0
(4)	BANK-10	121	0	11	36	79	116	162	179
(5)	BANK-23	121	0	12	41	91	134	186	206
(6)	EXTNAP-01	121	0	174	592	1,294	1,908	2,653	2,935
(7)	TREAS-01	121	0	290	658	1,083	808	904	31
(8)	TREAS-03	121	0	102	230	377	278	309	0
(9)	TREAS-07	121	0	374	1,268	2,774	4,090	5,687	6,292
(10)	SUBTOTAL	121	0	1,077	3,085	6,124	7,649	10,251	9,643
(11)	NET	121	288,938	294,495	335,139	369,310	409,261	456,974	503,884
	CORPORATION INCOME TAXES								
(12)	BASE	122	37,022	60,880	73,929	85,445	103,481	117,765	130,227
	SAVINGS								
(13)	BANK-34	122	0	3	10	24	38	54	60
(14)	BANK-38	122	0	34	123	283	458	651	720
(15)	SUBTOTAL	122	0	36	133	307	496	705	780
(16)	NET	122	37,022	60,916	74,062	85,752	103,977	118,470	131,007
	SOCIAL INSURANCE								
	TAXES AND CONTRIBUTIONS								
	OLD AGE AND SURVIVORS INSURANCE								
(17)	BASE	123	128,972	152,662	181,029	198,050	218,197	248,526	274,731
	SAVINGS								
(18)	ASSET-02	123	0	148	351	576	423	482	0
(19)	SUBTOTAL	123	0	148	351	576	423	482	0
(20)	NET	123	128,972	152,810	181,380	198,626	218,620	249,008	274,731
	DISABILITY INSURANCE								
(21)	BASE	124	18,348	16,087	17,130	17,672	20,007	22,023	25,665
	SAVINGS								
(22)	SUBTOTAL	0	0	0	0	0	0	0	0
(23)	NET	0	18,348	16,087	17,130	17,672	20,007	22,023	25,665
	HOSPITAL INSURANCE								
(24)	BASE	125	35,641	40,516	42,190	46,510	53,330	59,256	65,193
	SAVINGS								
(25)	SUBTOTAL	0	0	0	0	0	0	0	0

(26)	NET	0	35,641	40,516	42,190	46,510	53,330	59,256	65,193
	RAILROAD RETIREMENT								
(27)	BASE	126	2,805	2,662	2,775	2,860	2,935	3,135	3,334
	SAVINGS								
(28)	BANK-11	126	0	42	132	273	374	499	530
(29)	BANK-13	126	0	16	51	105	144	193	205
(30)	SUBTOTAL	126	0	59	184	378	518	691	735
(31)	NET	126	2,805	2,721	2,959	3,238	3,453	3,826	4,069
	SUBTOTAL								
(32)	BASE	0	185,766	211,927	243,124	265,092	294,469	332,940	368,923
	SAVINGS								
(33)	SUBTOTAL	0	0	207	535	954	941	1,173	735
(34)	NET	0	185,766	212,134	243,659	266,046	295,410	334,113	369,658
	UNEMPLOYMENT INSURANCE								
(35)	BASE	127	18,799	25,096	24,945	28,799	27,048	25,371	23,385
	SAVINGS								
(36)	SUBTOTAL	0	0	0	0	0	0	0	0
(37)	NET	0	18,799	25,096	24,945	28,799	27,048	25,371	23,385
	OTHER RETIREMENT CONTRIBUTIONS								
	EMPLOYMENT RETIREMENT - EMPLOYEE CONTRIB.								
(38)	BASE	128	4,351	4,328	4,371	4,653	4,935	5,275	5,604
	SAVINGS								
(39)	SUBTOTAL	0	0	0	0	0	0	0	0
(40)	NET	0	4,351	4,328	4,371	4,653	4,935	5,275	5,604
	CONTRIB. FOR NON-FEDERAL EMPLOYEES								
(41)	BASE	129	78	88	93	104	115	128	141
	SAVINGS								
(42)	SUBTOTAL	0	0	0	0	0	0	0	0
(43)	NET	0	78	88	93	104	115	128	141
	SUBTOTAL								
(44)	BASE	0	4,429	4,416	4,464	4,757	5,050	5,403	5,745
	SAVINGS								
(45)	SUBTOTAL	0	0	0	0	0	0	0	0
(46)	NET	0	4,429	4,416	4,464	4,757	5,050	5,403	5,745
	TOTAL								
(47)	BASE	0	208,994	241,439	272,533	298,648	326,567	363,714	398,053
	SAVINGS								
(48)	SUBTOTAL	0	0	207	535	954	941	1,173	735
(49)	NET	0	208,994	241,646	273,068	299,602	327,508	364,887	398,788
	EXCISE TAXES								
	FEDERAL FUNDS								
	ALCOHOL TAXES								
(50)	BASE	130	5,557	5,541	5,615	5,685	5,751	5,813	5,873
	SAVINGS								
(51)	ASSET-03	130	0	45	92	139	94	95	0
(52)	TREAS-12	130	0	2	8	15	21	26	26
(53)	SUBTOTAL	130	0	48	99	155	115	121	26
(54)	NET	130	5,557	5,589	5,714	5,840	5,866	5,934	5,899
	TOBACCO TAXES								
(55)	BASE	131	4,136	5,116	5,135	2,653	2,670	2,688	2,707
	SAVINGS								
(56)	ASSET-03	131	0	56	113	87	59	59	0
(57)	SUBTOTAL	131	0	56	113	87	59	59	0
(58)	NET	131	4,136	5,172	5,248	2,740	2,729	2,747	2,707
	WINDFALL PROFITS								
(59)	BASE	132	12,999	12,049	14,178	16,404	19,106	22,735	27,272

	SAVINGS								
(60)	SUBTOTAL	0	0	0	0	0	0	0	0
(61)	NET	0	12,999	12,049	14,178	16,464	19,106	22,735	27,272
	OTHER								
(62)	BASE	133	1,394	2,308	2,587	1,289	439	474	688
	SAVINGS								
(63)	SUBTOTAL	0	0	0	0	0	0	0	0
(64)	NET	0	1,394	2,308	2,587	1,289	439	474	688
	SUBTOTAL								
(65)	BASE	0	24,086	25,014	27,515	26,091	27,966	31,710	36,452
	SAVINGS								
(66)	SUBTOTAL	0	0	104	212	242	173	180	26
(67)	NET	0	24,086	25,118	27,727	26,333	28,139	31,890	36,478
	TRUST FUNDS								
	HIGHWAYS								
(68)	BASE	134	8,297	11,972	12,748	13,102	12,897	13,450	14,165
	SAVINGS								
(69)	USER-21	134	0	87	277	568	746	973	1,024
(70)	SUBTOTAL	134	0	87	277	568	746	973	1,024
(71)	NET	134	8,297	12,059	13,025	13,670	13,643	14,423	15,189
	AIRPORT AND AIRWAY								
(72)	BASE	135	2,165	2,675	2,986	3,344	3,743	4,163	4,525
	SAVINGS								
(73)	SUBTOTAL	0	0	0	0	0	0	0	0
(74)	NET	0	2,165	2,675	2,986	3,344	3,743	4,163	4,525
	BLACK LUNG DISABILITY								
(75)	BASE	136	494	551	616	663	689	715	744
	SAVINGS								
(76)	SUBTOTAL	0	0	0	0	0	0	0	0
(77)	NET	0	494	551	616	663	689	715	744
	INLAND WATERWAY								
(78)	BASE	137	29	47	52	65	72	80	89
	SAVINGS								
(79)	USER-20	137	0	66	219	549	810	1,126	1,252
(80)	SUBTOTAL	137	0	66	219	549	810	1,126	1,252
(81)	NET	137	29	113	271	614	882	1,206	1,341
	HAZARDOUS SUBSTANCES RESPONSE								
(82)	BASE	138	230	278	285	140	0	0	0
	SAVINGS								
(83)	SUBTOTAL	0	0	0	0	0	0	0	0
(84)	NET	0	230	278	285	140	0	0	0
	SUBTOTAL								
(85)	BASE	0	11,215	15,523	16,687	17,314	17,401	18,408	19,523
	SAVINGS								
(86)	SUBTOTAL	0	0	153	496	1,117	1,556	2,098	2,276
(87)	NET	0	11,215	15,676	17,183	18,431	18,957	20,506	21,799
	TOTAL								
(88)	BASE	0	35,301	40,537	44,202	43,405	45,367	50,118	55,975
	SAVINGS								
(89)	SUBTOTAL	0	0	257	708	1,359	1,730	2,278	2,303
(90)	NET	0	35,301	40,794	44,910	44,764	47,097	52,396	58,278
	ESTATE AND GIFT TAXES								
(91)	BASE	139	6,053	5,911	5,635	5,081	4,636	4,334	4,400
	SAVINGS								
(92)	SUBTOTAL	0	0	0	0	0	0	0	0
(93)	NET	0	6,053	5,911	5,635	5,081	4,636	4,334	4,400

	CUSTOMS DUTIES								
(94)	BASE	140	8,655	9,498	10,387	11,495	12,810	14,243	15,692
	SAVINGS								
(95)	ASSET-03	140	0	38	83	137	102	113	0
(96)	USER-18	140	0	12	40	88	130	181	199
(97)	SUBTOTAL	140	0	50	122	225	232	294	199
(98)	NET	140	8,655	9,548	10,509	11,724	13,042	14,537	15,891
	DEPOSITS OF EARNINGS BY THE FED								
(99)	BASE	141	14,492	13,928	14,734	17,067	19,816	22,712	23,813
	SAVINGS								
(100)	SUBTOTAL	0	0	0	0	0	0	0	0
(101)	NET	0	14,492	13,928	14,734	17,067	19,816	22,712	23,813
	ALL OTHER MISCELLANEOUS RECEIPTS								
(102)	BASE	142	1,109	1,268	1,374	1,505	1,660	1,830	2,001
	SAVINGS								
(103)	BANK-40	142	0	25	83	181	267	367	402
(104)	SUBTOTAL	142	0	25	83	181	267	367	402
(105)	NET	142	1,109	1,293	1,457	1,686	1,927	2,197	2,403
	TOTAL RECEIPTS								
	BEFORE ECONOMIC IMPACT								
(106)	BASE	0	600,564	666,879	754,848	825,836	915,949	1,021,439	1,124,402
(107)	SAVINGS	0	0	1,652	4,665	9,150	11,314	15,069	14,061
(108)	NET	0	600,564	668,531	759,513	834,986	927,263	1,036,508	1,138,463
(109)	ECONOMIC IMPACT OF SAVINGS	0	(214)	(8,839)	(1,015)	(10,484)	(33,437)	(51,310)	(62,127)
	AFTER ECONOMIC IMPACT								
(110)	BASE	0	600,564	666,879	754,848	825,836	915,949	1,021,439	1,124,402
(111)	SAVINGS	0	(214)	(7,187)	3,650	(9,334)	(22,123)	(36,241)	(48,066)
(112)	NET	0	600,350	659,692	758,498	816,502	893,826	985,198	1,076,336
	NATIONAL DEFENSE								
	DEPARTMENT OF DEFENSE-MILITARY								
	MILITARY PERSONNEL								
(113)	BASE	50	45,523	47,829	50,078	52,856	57,041	61,740	66,633
	SAVINGS								
(114)	ARMY-01	50	0	3	16	41	72	101	124
(115)	ARMY-02	50	0	8	25	53	77	104	112
(116)	ARMY-03	50	0	7	23	48	69	93	100
(117)	ARMY-04	50	0	2	6	14	20	26	29
(118)	ARMY-05	50	0	4	13	28	40	54	59
(119)	ARMY-06	50	0	12	39	82	117	159	171
(120)	ARMY-07	50	0	0	1	1	2	3	3
(121)	ARMY-09	50	0	1	3	7	10	14	15
(122)	ARMY-15	50	0	5	17	35	50	68	73
(123)	ARMY-17	50	0	(4)	(10)	(18)	(18)	(22)	(14)
(124)	FATNAP-09	50	0	0	0	1	1	1	1
(125)	NAVY-14	50	0	1	2	3	5	7	7
(126)	OSD-14	50	0	2	7	15	21	28	31
(127)	OSD-16	50	0	9	30	63	90	122	132
(128)	OSD-33	50	0	11	33	70	100	136	146

(129)	OSD-34	50	0	20	62	132	189	256	277
(130)	OSD-35	50	0	8	26	55	79	107	115
(131)	USAF-01	50	0	37	116	244	351	475	512
(132)	USAF-03	50	0	0	1	2	2	3	4
(133)	USAF-06	50	0	3	10	20	29	39	42
(134)	USAF-07	50	0	1	2	4	5	7	8
(135)	USAF-08	50	0	5	16	34	50	67	72
(136)	USAF-09	50	0	2	7	14	20	27	29
(137)	USAF-10	50	0	1	3	6	9	12	13
(138)	USAF-13	50	0	18	57	122	176	238	258
(139)	SUBTOTAL	50	0	157	504	1,074	1,567	2,127	2,321
(140)	NET	50	45,523	47,672	49,574	51,782	55,474	59,613	64,312
	RETIRED MILITARY PERSONNEL								
(141)	BASE	51	15,945	16,526	18,285	20,479	23,011	25,802	28,809
	SAVINGS								
(142)	ARMY-15	51	0	2	7	15	23	32	38
(143)	RETIRE-04	51	0	313	1,039	2,326	3,485	4,885	5,455
(144)	SUBTOTAL	51	0	315	1,045	2,342	3,509	4,918	5,491
(145)	NET	51	15,945	16,211	17,240	18,137	19,502	20,884	23,318
	OPERATION AND MAINTENANCE								
(146)	BASE	52	64,915	68,982	78,504	88,340	99,201	113,497	127,907
	SAVINGS								
(147)	ADP-04	52	0	110	375	843	1,262	1,805	2,034
(148)	ADP-05	52	0	11	38	86	129	184	208
(149)	ADP-06	52	0	196	671	1,509	2,260	3,232	3,642
(150)	ARMY-13	52	0	1	2	3	3	3	1
(151)	ARMY-14	52	0	12	40	87	124	176	191
(152)	ARMY-15	52	0	8	27	61	92	131	146
(153)	ARMY-16	52	0	6	58	171	348	525	709
(154)	ARMY-20	52	0	1	3	6	10	14	16
(155)	ASSET-06	52	0	47	160	360	539	771	869
(156)	EXTRAP-03	52	0	2	8	19	28	40	45
(157)	EXTRAP-04	52	0	22	75	169	253	362	408
(158)	EXTRAP-05	52	0	15	51	114	171	245	276
(159)	FEED-01	52	0	0	1	1	2	3	3
(160)	FEED-04	52	0	1	5	11	17	24	27
(161)	FEED-05	52	0	5	18	41	62	88	106
(162)	HOSP-01	52	0	148	337	568	425	487	8
(163)	HOSP-08	52	0	26	67	126	131	171	119
(164)	HOSP-09	52	0	2	7	15	23	33	37
(165)	HOSP-10	52	0	2	8	18	26	38	43
(166)	HOSP-11	52	0	41	140	315	471	673	759
(167)	LAND-02	52	0	1	3	7	10	14	16
(168)	NAVY-09	52	0	19	65	147	220	315	355
(169)	NAVY-10	52	0	4	13	29	43	61	69
(170)	NAVY-11	52	0	13	44	98	147	210	236
(171)	NAVY-12	52	0	1	4	8	12	17	20
(172)	NAVY-13	52	0	1	2	4	6	9	10
(173)	OSD-01	52	0	16	56	127	189	271	305
(174)	OSD-02	52	0	398	1,042	1,989	2,177	2,884	2,217
(175)	OSD-03	52	0	(5)	(3)	10	53	87	148
(176)	OSD-04	52	0	43	103	184	168	210	99
(177)	OSD-05	52	0	11	30	61	76	105	99
(178)	OSD-06	52	0	16	39	71	69	87	49
(179)	OSD-08	52	0	32	109	245	367	525	591
(180)	OSD-09	52	0	213	726	1,633	2,445	3,497	3,941
(181)	OSD-10	52	0	4	12	24	30	41	39
(182)	OSD-11	52	0	1	3	6	9	13	15
(183)	OSD-12	52	0	0	1	1	2	3	3
(184)	OSD-13	52	0	1	1	2	2	2	8

(185)	OSD-28	52	0	38	129	290	435	622	701
(186)	OSD-29	52	0	30	103	233	348	498	562
(187)	OSD-30	52	0	30	102	230	345	493	556
(188)	OSD-31	52	0	4	13	28	42	60	68
(189)	OSD-38	52	0	12	34	65	75	101	85
(190)	OSD-39	52	0	4	15	33	49	70	75
(191)	PER-03	52	0	29	98	220	330	471	531
(192)	PER-04	52	0	28	96	216	323	462	521
(193)	PER-05	52	0	47	159	358	537	767	865
(194)	PER-06	52	0	31	105	235	353	504	568
(195)	PER-07	52	0	13	44	98	147	210	237
(196)	PER-12	52	0	102	349	785	1,175	1,681	1,894
(197)	PER-17	52	0	0	2	3	5	7	8
(198)	PPAV-01	52	0	7	25	56	84	120	135
(199)	PPAV-03	52	0	2	6	15	23	34	39
(200)	PROP-99	52	0	34	98	199	252	348	333
(201)	PPAV-05	52	0	3	12	26	40	57	64
(202)	PPAV-06	52	0	7	25	55	83	119	134
(203)	PRIV-05	52	0	91	280	595	814	1,142	1,188
(204)	PRIV-07	52	0	24	74	158	217	304	318
(205)	PROP-05	52	0	1	3	7	11	16	18
(206)	PROP-06	52	0	8	28	64	95	136	154
(207)	PROP-07	52	0	(6)	6	44	136	215	333
(208)	TTM-01	52	0	29	99	222	332	475	535
(209)	TTM-02	52	0	8	23	48	64	88	88
(210)	TTM-03	52	0	16	55	125	187	287	301
(211)	USAF-11	52	0	2	5	12	18	26	30
(212)	USAF-16	52	0	22	76	170	255	364	410
(213)	USAF-18	52	0	2	8	19	28	41	46
(214)	USAF-22	52	0	7	25	56	84	120	136
(215)	WAGE-02	52	0	41	141	317	474	678	765
(216)	SUBTOTAL	52	0	2,091	6,573	14,156	19,764	27,855	29,545
(217)	NET	52	64,915	66,891	71,931	74,184	79,437	85,642	98,362
	PROCUREMENT								
(218)	BASE	58	53,624	65,617	77,535	90,548	105,479	121,562	137,997
	SAVINGS								
(219)	ARMY-10	58	0	28	99	231	359	517	587
(220)	ARMY-11	58	0	220	781	1,824	2,832	4,088	4,632
(221)	ARMY-15	58	0	9	33	76	118	170	193
(222)	ASSET-01	58	0	1,287	3,151	5,715	5,043	6,160	1,976
(223)	NAVY-03	58	0	42	147	344	535	771	875
(224)	NAVY-04	58	0	50	178	415	645	929	1,055
(225)	OSD-20	58	0	400	1,416	3,308	5,138	7,402	8,403
(226)	OSD-37	58	0	61	217	507	787	1,133	1,287
(227)	PROC-02	58	0	79	281	657	1,020	1,469	1,688
(228)	PROC-04	58	0	159	564	1,317	2,046	2,947	3,345
(229)	PROC-06	58	0	184	651	1,520	2,360	3,400	3,868
(230)	PROC-07	58	0	61	217	507	787	1,133	1,287
(231)	PROC-08	58	0	184	651	1,520	2,360	3,400	3,868
(232)	PROC-09	58	0	61	217	507	787	1,133	1,287
(233)	PROC-16	58	0	24	87	203	315	453	515
(234)	PROC-19	58	0	7	24	57	88	127	144
(235)	USAF-20	58	0	164	583	1,362	2,115	3,047	3,459
(236)	WAGE-02	58	0	37	133	310	482	694	787
(237)	WAGE-03	58	0	39	137	319	496	714	811
(238)	SUBTOTAL	58	0	3,096	9,566	20,696	28,312	39,681	40,030
(239)	NET	58	53,624	62,521	67,969	69,852	77,167	81,881	97,967
	RESEARCH AND DEVELOPMENT								
(240)	BASE	59	20,554	25,237	28,107	30,919	31,393	32,839	40,032
	SAVINGS								

(241)	ARMY-15	59	0	4	12	27	37	48	58
(242)	ASSET-06	59	0	27	91	199	270	353	430
(243)	EXTRAP-03	59	0	1	5	11	15	19	23
(244)	OSD-18	59	0	12	41	90	122	160	195
(245)	USD-19	59	0	86	287	632	855	1,118	1,363
(246)	PER-03	59	0	17	55	122	165	215	263
(247)	PER-04	59	0	16	54	120	162	212	258
(248)	PER-05	59	0	27	90	198	268	351	428
(249)	PER-06	59	0	18	59	130	176	230	281
(250)	PER-07	59	0	7	25	55	74	97	116
(251)	PER-12	59	0	59	197	434	587	768	936
(252)	PER-17	59	0	0	1	2	3	3	4
(253)	PROP-99	59	0	0	2	4	5	6	8
(254)	PROP-05	59	0	1	2	5	6	8	10
(255)	PROP-06	59	0	5	16	35	48	62	76
(256)	R&D-01	59	0	27	90	199	269	351	428
(257)	R&D-02	59	0	82	274	602	815	1,066	1,299
(258)	R&D-04	59	0	7	23	51	70	91	111
(259)	R&D-05	59	0	2	6	13	17	22	27
(260)	WAGE-02	59	0	14	46	101	137	179	218
(261)	SUBTOTAL	59	0	412	1,377	3,029	4,100	5,361	6,536
(262)	NET	59	20,554	24,825	26,730	27,890	27,293	27,478	33,496
	MILITARY CONSTRUCTION AND OTHER								
(263)	BASE	55	4,451	8,412	9,692	11,042	15,068	20,164	19,528
	SAVINGS								
(264)	ASSET-06	55	0	42	144	329	599	1,001	970
(265)	CONST-05	55	0	8	26	60	108	181	175
(266)	CONST-08	55	0	1	3	7	14	23	22
(267)	CONST-10	55	0	0	1	1	3	5	4
(268)	CONST-18	55	0	10	35	79	144	240	233
(269)	CONST-19	55	0	5	17	39	70	118	114
(270)	CONST-21	55	0	4	13	30	54	91	88
(271)	EXTRAP-03	55	0	2	8	18	32	54	53
(272)	PER-03	55	0	25	88	201	365	611	591
(273)	PER-04	55	0	25	87	198	359	601	582
(274)	PER-05	55	0	41	143	327	594	994	963
(275)	PER-06	55	0	27	94	215	391	653	633
(276)	PER-07	55	0	11	40	90	164	275	266
(277)	PER-12	55	0	91	314	716	1,302	2,178	2,109
(278)	PER-17	55	0	0	1	3	6	10	9
(279)	PROP-05	55	0	1	3	7	14	23	22
(280)	PROP-06	55	0	7	25	58	106	177	171
(281)	PROP-10	55	0	18	61	139	254	424	411
(282)	SUBTOTAL	55	0	319	1,104	2,516	4,578	7,657	7,416
(283)	NET	55	4,451	8,093	8,588	8,526	10,490	12,507	12,112
	OTHER ALLOWANCES								
(284)	BASE	56	0	0	0	0	0	0	0
	SAVINGS								
(285)	SUBTOTAL	0	0	0	0	0	0	0	0
(286)	NET	0	0	0	0	0	0	0	0
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(287)	BASE	57	0	(311)	(281)	(263)	(263)	(265)	(267)
	SAVINGS								
(288)	SUBTOTAL	0	0	0	0	0	0	0	0
(289)	NET	0	0	(311)	(281)	(263)	(263)	(265)	(267)
	SUBTOTAL								
(290)	BASE	0	205,012	232,292	261,920	293,921	330,930	375,339	420,639
	SAVINGS								
(291)	SUBTOTAL	0	0	6,391	20,169	43,814	61,829	87,599	91,338
(292)	NET	0	205,012	225,901	241,751	250,107	269,101	287,740	329,301

	ATOMIC ENERGY DEFENSE ACTIVITIES								
(293)	BASE	53	5,171	6,206	6,717	7,283	7,958	8,792	9,646
	SAVINGS								
(294)	ASSET-06	53	0	0	1	3	4	5	6
(295)	ENERGY-03	53	0	17	55	118	172	238	261
(296)	ENERGY-17	53	0	5	16	34	49	68	75
(297)	ENERGY-18	53	0	2	6	13	18	26	28
(298)	PER-03	53	0	0	1	2	3	4	4
(299)	PER-04	53	0	0	1	2	3	4	4
(300)	PER-05	53	0	0	1	3	4	5	6
(301)	PER-06	53	0	0	1	2	3	4	4
(302)	PER-07	53	0	0	0	1	1	2	2
(303)	PER-12	53	0	1	3	7	10	14	16
(304)	PROC-04	53	0	8	26	57	82	114	125
(305)	PROP-06	53	0	0	0	1	1	2	2
(306)	R&D-01	53	0	8	25	54	79	109	119
(307)	WAGE-03	53	0	5	15	32	47	65	71
(308)	SUBTOTAL	53	0	46	151	327	476	658	722
(309)	NET	53	5,171	6,160	6,566	6,956	7,482	8,134	8,924
	DEFENSE-RELATED ACTIVITIES								
(310)	BASE	54	301	222	13	(16)	(6)	31	67
	SAVINGS								
(311)	ASSET-06	54	0	0	0	0	0	0	0
(312)	PER-05	54	0	0	0	0	0	0	0
(313)	PROP-99	54	0	0	0	0	0	0	0
(314)	SUBTOTAL	54	0	1	0	0	0	0	1
(315)	NET	54	301	221	13	(16)	(6)	31	66
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(316)	BASE	60	0	(3)	(3)	(3)	(3)	(3)	(3)
	SAVINGS								
(317)	SUBTOTAL	0	0	0	0	0	0	0	0
(318)	NET	0	0	(3)	(3)	(3)	(3)	(3)	(3)
	TOTAL								
(319)	BASE	0	210,484	238,717	268,647	301,185	338,879	384,159	430,349
	SAVINGS								
(320)	SUBTOTAL	0	0	6,438	20,320	44,140	62,305	88,257	92,060
(321)	NET	0	210,484	232,279	248,327	257,045	276,574	295,902	338,289
	INTERNATIONAL AFFAIRS								
	FOREIGN ECONOMIC AND FINANCIAL ASSISTANCE								
(322)	BASE	151	3,960	3,741	3,856	4,091	4,317	4,587	4,994
	SAVINGS								
(323)	AG-25	151	0	10	32	67	94	125	136
(324)	AG-26	151	0	1	4	7	10	14	15
(325)	AG-27	151	0	0	1	2	2	3	3
(326)	AG-28	151	0	0	0	0	1	1	1
(327)	ASSET-06	151	0	0	0	1	1	1	1
(328)	ASSET-15	151	0	4	12	26	37	49	53
(329)	ASSET-99	151	0	174	358	569	401	426	0
(330)	BUSIN-01	151	0	0	2	3	5	6	7
(331)	EXTRAF-08	151	0	1	3	6	8	11	11
(332)	PER-03	151	0	0	0	1	1	1	1
(333)	PER-04	151	0	0	0	1	1	1	1
(334)	PER-05	151	0	0	0	1	1	1	1
(335)	PER-06	151	0	0	0	1	1	1	1
(336)	PER-12	151	0	0	1	3	4	5	5
(337)	PROP-99	151	0	0	0	0	0	0	0
(338)	STATE-05	151	0	15	32	50	35	38	0
(339)	STATE-06	151	0	1	3	6	9	11	12

(340)	STATE-07	151	0	45	139	255	415	551	606
(341)	STATE-09	151	0	3	10	22	31	41	45
(342)	SUBTOTAL	151	0	256	597	1,060	1,055	1,286	895
(343)	NET	151	3,960	3,485	3,259	3,031	3,262	3,301	4,099
	INTERNATIONAL SECURITY ASSISTANCE								
(344)	BASE	152	3,755	5,947	6,518	6,994	7,727	8,405	9,326
	SAVINGS								
(345)	ASSET-99	152	0	287	630	1,014	747	813	0
(346)	USER-10	152	0	16	52	112	165	224	248
(347)	SUBTOTAL	152	0	303	682	1,126	912	1,036	248
(348)	NET	152	3,755	5,644	5,836	5,868	6,815	7,369	9,078
	CONDUCT OF FOREIGN AFFAIRS								
(349)	BASE	153	1,766	1,275	1,314	1,394	1,471	1,564	1,702
	SAVINGS								
(350)	ASSET-06	153	0	2	6	12	17	22	24
(351)	EXTRAP-03	153	0	0	0	0	1	1	1
(352)	PER-03	153	0	1	4	7	10	14	15
(353)	PER-04	153	0	1	4	7	10	14	15
(354)	PER-05	153	0	2	6	12	17	22	24
(355)	PER-06	153	0	1	4	8	11	15	16
(356)	PER-07	153	0	1	2	3	5	6	7
(357)	PER-12	153	0	4	12	26	36	48	52
(358)	PROP-99	153	0	2	4	7	6	8	5
(359)	PROP-05	153	0	0	0	0	1	1	1
(360)	PROP-06	153	0	0	1	2	3	4	5
(361)	STATE-01	153	0	2	5	12	18	24	27
(362)	STATE-02	153	0	3	8	17	24	32	35
(363)	STATE-08	153	0	0	0	1	1	1	2
(364)	WAGE-03	153	0	0	1	2	3	4	5
(365)	SUBTOTAL	153	0	18	56	118	164	217	234
(366)	NET	153	1,766	1,257	1,258	1,276	1,307	1,347	1,468
	FOREIGN INFORMATION AND EXCHANGE ACTIVITIES								
(367)	BASE	154	602	650	670	710	750	797	867
	SAVINGS								
(368)	ASSET-06	154	0	1	3	6	8	11	12
(369)	PER-03	154	0	1	2	4	5	7	7
(370)	PER-04	154	0	1	2	4	5	7	7
(371)	PER-05	154	0	1	3	6	8	11	12
(372)	PER-06	154	0	1	2	4	5	7	7
(373)	PER-07	154	0	0	1	1	2	3	3
(374)	PER-12	154	0	2	6	12	17	22	24
(375)	PROP-99	154	0	1	3	4	3	4	1
(376)	PROP-06	154	0	0	0	1	1	1	1
(377)	SUBTOTAL	154	0	7	20	41	55	73	76
(378)	NET	154	602	643	650	669	695	724	791
	INTERNATIONAL FINANCIAL PROGRAMS								
(379)	BASE	155	(1,089)	229	236	250	264	280	305
	SAVINGS								
(380)	ASSET-14	155	0	54	168	354	497	659	702
(381)	ASSET-15	155	0	16	51	108	151	201	214
(382)	ASSET-99	155	0	160	335	527	370	393	0
(383)	BANK-08	155	0	0	0	0	0	1	1
(384)	EXTRAP-08	155	0	0	0	1	1	2	2
(385)	STATE-04	155	0	1	2	4	5	7	7
(386)	SUBTOTAL	155	0	231	557	994	1,025	1,261	926
(387)	NET	155	(1,089)	(2)	(321)	(744)	(761)	(981)	(621)
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(388)	BASE	156	0	(108)	(111)	(114)	(117)	(120)	(123)
	SAVINGS								
(389)	SUBTOTAL	0	0	0	0	0	0	0	0

(390)	NET	0	0	(108)	(111)	(114)	(117)	(120)	(123)
	TOTAL								
(391)	BASE	0	8,994	11,734	12,483	13,325	14,412	15,513	17,071
	SAVINGS								
(392)	SUBTOTAL	0	0	815	1,912	3,338	3,211	3,873	2,380
(393)	NET	0	8,994	10,919	10,571	9,987	11,201	11,640	14,691
	GENERAL SCIENCE, SPACE, AND TECHNOLOGY								
	GENERAL SCIENCE AND BASIC RESEARCH								
(394)	BASE	251	1,644	1,711	1,797	1,895	2,002	2,128	2,273
	SAVINGS								
(395)	ADP-04	251	0	8	26	56	78	104	111
(396)	ADP-05	251	0	1	3	6	8	11	12
(397)	ADP-06	251	0	15	47	100	140	187	199
(398)	ASSET-06	251	0	0	1	1	2	3	3
(399)	PER-03	251	0	0	0	1	1	1	1
(400)	PER-04	251	0	0	0	1	1	1	1
(401)	PER-05	251	0	0	1	1	2	3	3
(402)	PER-06	251	0	0	0	1	1	1	1
(403)	PER-12	251	0	0	1	3	4	5	6
(404)	PROP-99	251	0	0	1	1	1	1	0
(405)	R&D-01	251	0	9	27	57	80	106	113
(406)	R&D-02	251	0	3	9	19	26	35	37
(407)	R&D-04	251	0	2	7	14	19	26	28
(408)	R&D-05	251	0	3	9	19	27	36	39
(409)	R&D-06	251	0	8	26	55	78	103	111
(410)	SUBTOTAL	251	0	50	158	334	469	624	666
(411)	NET	251	1,644	1,661	1,639	1,561	1,533	1,504	1,607
	SPACE FLIGHT								
(412)	BASE	253	4,053	3,969	4,160	4,408	4,680	4,957	5,277
	SAVINGS								
(413)	ADP-04	253	0	16	50	105	149	197	209
(414)	ADP-05	253	0	2	5	11	15	20	22
(415)	ADP-06	253	0	20	88	188	265	352	374
(416)	ASSET-06	253	0	3	10	21	30	39	42
(417)	EXTRAP-03	253	0	0	1	1	2	2	3
(418)	PER-03	253	0	2	6	13	18	24	26
(419)	PER-04	253	0	2	6	12	17	23	24
(420)	PER-05	253	0	3	10	20	29	38	41
(421)	PER-06	253	0	2	6	14	19	26	27
(422)	PER-07	253	0	1	3	5	8	10	11
(423)	PER-12	253	0	7	22	46	66	87	93
(424)	PROP-99	253	0	1	3	6	7	9	8
(425)	PRIV-03	253	0	215	450	715	506	536	0
(426)	PROC-02	253	0	1	3	7	9	12	13
(427)	PROC-04	253	0	3	10	22	30	40	43
(428)	PROC-19	253	0	0	0	1	1	1	1
(429)	PROC-22	253	0	1	3	7	9	12	13
(430)	PROP-05	253	0	0	0	1	1	1	1
(431)	PROP-06	253	0	1	2	4	6	7	8
(432)	R&D-01	253	0	21	65	138	196	259	276
(433)	R&D-02	253	0	10	33	70	99	131	139
(434)	R&D-04	253	0	2	5	11	16	21	22
(435)	R&D-05	253	0	0	2	3	5	6	7
(436)	WAGE-02	253	0	5	16	33	47	62	66
(437)	WAGE-03	253	0	6	18	39	55	73	78
(438)	SUBTOTAL	253	0	331	817	1,492	1,605	1,991	1,547
(439)	NET	253	4,053	3,638	3,343	2,916	3,075	2,966	3,730
	SPACE SCIENCE, APPLICATIONS AND TECHNOLOGY								

(440)	BASE	254	1,486	1,607	1,680	1,765	1,859	1,971	2,101
	SAVINGS								
(441)	ADP-04	254	0	9	27	57	79	105	112
(442)	ADP-05	254	0	1	2	5	7	10	10
(443)	ADP-06	254	0	15	49	102	143	190	202
(444)	ASSET-13	254	0	22	68	143	200	265	283
(445)	R&D-01	254	0	12	36	76	107	142	151
(446)	R&D-02	254	0	6	18	38	54	72	76
(447)	SUBTOTAL	254	0	64	200	421	591	784	835
(448)	NET	254	1,486	1,543	1,480	1,344	1,268	1,187	1,266
	SUPPORTING SPACE ACTIVITIES								
(449)	BASE	255	562	536	560	588	620	657	700
	SAVINGS								
(450)	R&D-01	255	0	3	10	21	29	39	41
(451)	R&D-02	255	0	2	5	11	15	20	21
(452)	SUBTOTAL	255	0	5	15	31	44	58	62
(453)	NET	255	562	531	545	557	576	599	638
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(454)	BASE	256	0	(9)	(10)	(10)	(10)	(10)	(10)
	SAVINGS								
(455)	SUBTOTAL	0	0	0	0	0	0	0	0
(456)	NET	0	0	(9)	(10)	(10)	(10)	(10)	(10)
	TOTAL								
(457)	BASE	0	7,745	7,814	8,187	8,646	9,151	9,703	10,341
	SAVINGS								
(458)	SUBTOTAL	0	0	450	1,190	2,278	2,710	3,457	3,111
(459)	NET	0	7,745	7,364	6,997	6,368	6,441	6,246	7,230
	ENERGY								
	ENERGY SUPPLY								
(460)	BASE	271	2,421	2,355	1,843	1,915	2,146	2,328	2,491
	SAVINGS								
(461)	AG-57	271	0	30	48	76	60	67	10
(462)	AG-58	271	0	0	0	0	1	1	1
(463)	ASSET-06	271	0	3	7	15	22	30	32
(464)	ASSET-13	271	0	252	591	1,229	1,837	2,491	2,665
(465)	ASSET-14	271	0	10	23	47	71	96	103
(466)	ASSET-15	271	0	16	38	79	118	161	172
(467)	ASSET-99	271	0	16	35	38	29	31	0
(468)	BUSTV-A1	271	0	4	9	18	27	36	39
(469)	BUSTV-A2	271	0	3	6	13	19	26	28
(470)	BUSTV-A3	271	0	1	2	3	6	8	10
(471)	BUSTV-A5	271	0	0	0	0	1	1	1
(472)	BUSTV-A6	271	0	1	3	7	10	14	15
(473)	BUSTV-A7	271	0	4	9	18	27	37	40
(474)	CONST-05	271	0	2	5	10	15	20	22
(475)	CONST-08	271	0	0	1	1	2	3	3
(476)	CONST-18	271	0	3	6	13	20	27	29
(477)	CONST-19	271	0	1	3	7	10	13	14
(478)	CONST-21	271	0	1	3	5	8	11	11
(479)	ENERGY-01	271	0	1	1	3	4	5	6
(480)	ENERGY-05	271	0	6	14	30	45	60	65
(481)	ENERGY-08	271	0	0	1	2	2	3	4
(482)	ENERGY-09	271	0	3	8	16	23	32	34
(483)	ENERGY-10	271	0	2	5	10	16	21	23
(484)	ENERGY-13	271	0	12	29	59	89	120	129
(485)	EXTRAP-03	271	0	0	0	1	1	2	2
(486)	LAND-02	271	0	0	0	0	0	1	1
(487)	PER-03	271	0	2	4	9	13	18	19

(488)	PER-04	271	0	2	4	9	13	18	19
(489)	PER-05	271	0	3	7	14	21	29	31
(490)	PER-06	271	0	2	5	9	14	19	20
(491)	PER-07	271	0	1	2	4	6	8	9
(492)	PER-12	271	0	7	15	32	47	64	69
(493)	PROF-99	271	0	1	1	2	2	3	2
(494)	PRIV-02	271	0	51	130	249	371	504	539
(495)	PRIV-07	271	0	2	4	8	11	14	14
(496)	PROC-02	271	0	2	4	8	11	15	16
(497)	PROC-19	271	0	0	0	0	1	1	1
(498)	PROC-22	271	0	1	3	7	11	14	15
(499)	PROP-05	271	0	0	0	0	1	1	1
(500)	PROP-06	271	0	0	1	2	4	5	5
(501)	R&D-01	271	0	16	37	77	115	156	167
(502)	R&D-04	271	0	5	11	23	35	47	50
(503)	R&D-05	271	0	1	2	4	6	8	8
(504)	WAGE-02	271	0	3	7	15	22	30	32
(505)	WAGE-03	271	0	7	17	35	52	71	76
(506)	SUBTOTAL	271	0	476	1,081	2,210	3,219	4,343	4,551
(507)	NET	271	2,421	1,879	762	(295)	(1,073)	(2,015)	(2,060)
	ENERGY CONSERVATION								
(508)	BASE	272	477	676	700	862	962	1,084	1,219
	SAVINGS								
(509)	ENERGY-06	272	0	1	3	5	4	4	0
(510)	SUBTOTAL	272	0	1	3	5	4	4	0
(511)	NET	272	477	675	697	857	958	1,080	1,219
	EMERGENCY ENERGY PREPAREDNESS								
(512)	BASE	274	215	409	416	422	428	434	440
	SAVINGS								
(513)	ENERGY-07	274	0	188	396	622	473	506	134
(514)	SUBTOTAL	274	0	188	396	622	473	506	134
(515)	NET	274	215	221	20	(200)	(45)	(72)	306
	ENERGY INFORMATION, POLICY AND REGULATION								
(516)	BASE	276	886	778	704	778	858	1,049	1,204
	SAVINGS								
(517)	ASSET-06	276	0	1	3	6	9	14	16
(518)	EXTRAP-03	276	0	0	0	1	1	1	1
(519)	PER-03	276	0	1	2	4	6	9	10
(520)	PER-04	276	0	1	2	4	6	9	10
(521)	PER-05	276	0	1	3	6	9	14	16
(522)	PER-06	276	0	1	2	4	6	9	10
(523)	PER-07	276	0	0	1	2	2	4	4
(524)	PER-12	276	0	2	6	13	19	30	34
(525)	PROP-99	276	0	1	1	3	3	4	4
(526)	PROP-06	276	0	0	0	1	2	2	3
(527)	USER-15	276	0	2	6	12	18	27	32
(528)	SUBTOTAL	276	0	9	25	55	80	123	140
(529)	NET	276	886	769	679	723	778	926	1,064
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(530)	BASE	277	0	(76)	(58)	(50)	(46)	(44)	(43)
	SAVINGS								
(531)	SUBTOTAL	0	0	0	0	0	0	0	0
(532)	NET	0	0	(76)	(58)	(50)	(46)	(44)	(43)
	TOTAL								
(533)	BASE	0	3,999	4,142	3,605	3,927	4,348	4,851	5,311
	SAVINGS								
(534)	SUBTOTAL	0	0	675	1,505	2,892	3,776	4,976	4,826
(535)	NET	0	3,999	3,467	2,100	1,035	572	(125)	485

NATURAL RESOURCES AND ENVIRONMENT

	WATER RESOURCES								
(536)	BASE	301	3,901	3,518	2,558	2,887	3,008	3,379	3,566
	SAVINGS								
(537)	AG-35	301	0	1	2	4	6	9	9
(538)	AG-37	301	0	1	2	4	6	9	9
(539)	ARMY-21	301	0	0	1	2	3	4	5
(540)	ASSET-06	301	0	4	8	17	24	34	36
(541)	ASSET-99	301	0	3	4	7	5	6	0
(542)	CONST-01	301	0	2	5	11	15	22	23
(543)	CONST-02	301	0	0	1	1	2	3	3
(544)	CONST-03	301	0	0	1	1	2	3	3
(545)	CONST-05	301	0	3	6	12	17	24	26
(546)	CONST-08	301	0	0	1	2	2	3	4
(547)	CONST-12	301	0	1	1	3	4	5	5
(548)	CONST-14	301	0	38	68	109	95	118	59
(549)	CONST-15	301	0	3	7	15	21	30	31
(550)	CONST-16	301	0	0	0	0	0	1	1
(551)	CONST-18	301	0	3	7	16	23	32	34
(552)	CONST-19	301	0	2	4	8	11	16	16
(553)	CONST-21	301	0	1	3	6	9	12	13
(554)	EPA-01	301	0	2	4	10	14	19	20
(555)	EXTRAP-03	301	0	0	0	1	1	2	2
(556)	PER-03	301	0	2	5	11	15	21	22
(557)	PER-04	301	0	2	5	10	14	20	21
(558)	PER-05	301	0	3	8	17	24	34	35
(559)	PER-06	301	0	2	5	11	15	22	23
(560)	PER-07	301	0	1	2	5	6	9	10
(561)	PER-12	301	0	8	16	37	52	72	76
(562)	PROP-99	301	0	3	4	7	6	7	2
(563)	PROP-05	301	0	0	0	0	1	1	1
(564)	PROP-06	301	0	1	1	3	4	6	6
(565)	USER-19	301	0	37	82	184	256	359	379
(566)	WAGE-01	301	0	33	73	164	228	320	337
(567)	WAGE-03	301	0	5	11	24	33	47	49
(568)	SUBTOTAL	301	0	162	326	705	915	1,267	1,260
(569)	NET	301	3,901	3,356	2,232	2,182	2,093	2,112	2,306
	CONSERVATION AND LAND MANAGEMENT								
(570)	BASE	302	1,503	2,926	3,201	3,500	3,826	4,199	4,595
	SAVINGS								
(571)	AG-35	302	0	2	6	14	20	28	31
(572)	AG-37	302	0	2	6	14	20	28	31
(573)	AG-39	302	0	0	2	6	16	14	17
(574)	AG-41	302	0	284	621	1,019	743	815	0
(575)	AG-42	302	0	6	19	42	61	84	92
(576)	AG-43	302	0	3	10	22	33	45	49
(577)	AG-45	302	0	4	13	28	41	56	61
(578)	AG-46	302	0	3	11	25	36	49	54
(579)	AG-47	302	0	10	33	72	105	144	158
(580)	AG-48	302	0	3	8	18	26	36	40
(581)	AG-49	302	0	2	6	13	18	25	28
(582)	AG-50	302	0	18	68	160	256	358	419
(583)	ASSET-06	302	0	11	35	77	112	154	168
(584)	CONST-01	302	0	4	12	25	37	50	55
(585)	CONST-02	302	0	1	4	10	14	20	21
(586)	CONST-03	302	0	1	4	10	14	20	21
(587)	EXTRAP-03	302	0	1	2	4	6	8	9
(588)	INT-02	302	0	19	59	126	175	237	249
(589)	INT-04	302	0	6	19	42	61	84	92
(590)	INT-05	302	0	0	1	3	4	5	6

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(591)          I&T-06          302        0        0        1        2        3        4        5
(592)          LAND-02         302        0        0        1        1        2        3        3
(593)          P&R-03          302        0        7       21       47       68       93      102
(594)          P&R-04          302        0        7       21       47       68       93      102
(595)          P&R-05          302        0       11       35       76      111      152      166
(596)          P&R-06          302        0        7       23       50       72       99      109
(597)          P&R-07          302        0        3        9       20       30       41       45
(598)          P&R-12          302        0       24       77      169      247      339      371
(599)          P&R-17          302        0        0        1        1        2        3        3
(600)          PPAV-01         302        0        0        1        3        4        6        7
(601)          PPAV-03         302        0        0        1        1        2        3        3
(602)          PROP-99         302        0        7       15       26       22       26        9
(603)          PPAV-05         302        0        0        1        1        2        3        3
(604)          PPAV-06         302        0        1        2        4        6        9        9
(605)          PRIV-07         302        0        5       14       29       39       52       53
(606)          PROP-05         302        0        0        1        1        2        3        3
(607)          PROP-06         302        0        2        6       14       20       28       31
(608)          TTM-01          302        0        1        4        9       13       18       19
(609)          TTM-02          302        0        0        1        2        3        3        3
(610)          TTM-03          302        0        1        5       10       15       20       22
(611)          TTM-04          302        0        1        4        8       11       15       17
(612)          USAF-12         302        0        0        1        1        2        3        3
(613)          USER-09         302        0        2        5       12       17       23       25
(614)          WAGE-01         302        0       52      171      374      546      749      819
(615)      SUBTOTAL            302        0      511    1,363    2,639    3,100    4,040    3,533
(616)      NET                 302    1,503    2,415    1,838      861      726      151    1,062
        RECREATIONAL RESOURCES
(617)      BASE                303    1,454    1,810    1,963    2,101    2,276    2,427    2,565
           SAVINGS
(618)          ASSET-06        303        0        2        7       15       21       28       30
(619)          ASSET-99        303        0        0        0        0        0        0        0
(620)          CONG-02         303        0        0        1        3        4        6        6
(621)          CONST-05        303        0        0        1        3        4        5        5
(622)          CONST-07        303        0       63      207      442      639      851      900
(623)          CONST-08        303        0        0        0        0        1        1        1
(624)          CONST-18        303        0        0        2        3        5        7        7
(625)          CONST-19        303        0        0        1        3        4        5        5
(626)          CONST-21        303        0        0        1        2        3        3        4
(627)          EXTRAP-03       303        0        0        0        1        1        2        2
(628)          P&R-03          303        0        1        4        9       13       18       19
(629)          P&R-04          303        0        1        4        9       13       18       19
(630)          P&R-05          303        0        2        7       14       21       28       29
(631)          P&R-06          303        0        1        5       10       14       19       20
(632)          P&R-07          303        0        1        3        4        5        7        7
(633)          P&R-12          303        0        5       15       33       47       63       66
(634)          PROP-99         303        0        2        4        7        6        7        2
(635)          PROP-06         303        0        0        1        3        4        5        5
(636)          USER-02         303        0        2        6       14       22       29       32
(637)          USER-03         303        0       14       45       97      141      187      198
(638)      SUBTOTAL            303        0       97      315      672      967    1,208    1,357
(639)      NET                 303    1,454    1,713    1,648    1,429    1,309    1,139    1,208
        POLLUTION CONTROL AND ABATEMENT
(640)      BASE                304    4,263    4,689    5,127    5,635    6,063    6,634    7,119
           SAVINGS
(641)          ASSET-06        304        0        1        4       10       14       19       20
(642)          ASSET-15        304        0        3       11       24       34       47       50
(643)          CONG-04         304        0        4       12       27       39       54       58
(644)          CONST-01        304        0        0        1        2        3        5        5
(645)          CONST-05        304        0        4       13       29       41       56       68
(646)          CONST-08        304        0        1        2        4        6        8        8
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(647)	CONST-10	304	0	0	0	1	1	2	2
(648)	CONST-18	304	0	5	17	38	55	75	80
(649)	CONST-19	304	0	3	9	19	27	37	40
(650)	CONST-21	304	0	2	6	14	20	28	30
(651)	EPA-01	304	0	15	51	112	160	219	235
(652)	EPA-02	304	0	1	2	4	6	8	9
(653)	EPA-03	304	0	11	24	40	28	31	0
(654)	EPA-04	304	0	3	10	22	31	43	46
(655)	EPA-05	304	0	2	7	15	22	30	32
(656)	EPA-06	304	0	0	1	4	8	12	16
(657)	EPA-07	304	0	1	4	8	11	15	17
(658)	EPA-08	304	0	0	1	2	2	3	3
(659)	EPA-09	304	0	1	3	7	10	13	14
(660)	EPA-10	304	0	0	1	1	2	3	3
(661)	EPA-11	304	0	1	2	5	8	10	11
(662)	EPA-12	304	0	0	1	2	3	4	4
(663)	EXTRAP-03	304	0	0	0	1	1	2	2
(664)	PER-03	304	0	1	3	6	8	11	12
(665)	PER-04	304	0	1	3	6	8	11	12
(666)	PER-05	304	0	1	5	10	14	19	21
(667)	PER-06	304	0	1	3	7	10	13	14
(668)	PER-07	304	0	0	1	2	4	5	5
(669)	PER-12	304	0	3	9	20	29	39	42
(670)	PROP-99	304	0	2	5	8	7	8	3
(671)	PROP-06	304	0	0	1	2	2	3	3
(672)	WAGE-01	304	0	5	17	36	52	72	77
(673)	SUBTOTAL	304	0	73	227	486	667	904	935
(674)	NET	304	4,263	4,616	4,900	5,149	5,396	5,730	6,184
	OTHER NATURAL RESOURCES								
(675)	BASE	306	1,548	1,720	1,827	2,044	2,233	2,432	2,679
	SAVINGS								
(676)	ASSET-06	306	0	3	11	24	35	47	52
(677)	COMM-10	306	0	2	7	16	24	33	36
(678)	COMM-12	306	0	1	2	4	6	8	9
(679)	CONG-03	306	0	1	3	7	11	15	16
(680)	CONG-04	306	0	0	1	3	5	6	7
(681)	CONST-01	306	0	0	1	2	3	5	5
(682)	CONST-05	306	0	0	1	2	3	5	5
(683)	CONST-08	306	0	0	0	0	1	1	1
(684)	CONST-18	306	0	0	1	3	5	6	7
(685)	CONST-19	306	0	0	1	2	3	5	5
(686)	CONST-21	306	0	0	1	2	2	3	3
(687)	EXTRAP-03	306	0	0	1	2	2	3	3
(688)	PER-03	306	0	2	7	15	22	30	33
(689)	PER-04	306	0	2	6	14	21	28	31
(690)	PER-05	306	0	3	11	24	35	48	52
(691)	PER-06	306	0	2	7	16	23	31	34
(692)	PER-07	306	0	1	3	7	10	13	15
(693)	PER-12	306	0	7	24	53	77	105	116
(694)	PROP-99	306	0	6	12	21	17	20	5
(695)	PROP-05	306	0	0	0	1	1	2	2
(696)	PROP-06	306	0	1	2	4	6	8	9
(697)	WAGE-01	306	0	5	16	36	53	72	80
(698)	WAGE-03	306	0	3	11	25	36	49	54
(699)	SUBTOTAL	306	0	43	130	284	400	541	579
(700)	NET	306	1,548	1,677	1,697	1,760	1,833	1,891	2,100
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(701)	BASE	307	0	(2,150)	(2,327)	(2,574)	(2,809)	(3,002)	(3,198)
	SAVINGS								
(702)	COMM-10	307	0	22	70	148	208	275	293

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(703)          CUMR-11          307         0         4        11        24        34        45        48
(704)        SUBTOTAL           307         0        26        82       172       241       320       341
(705)        NET                307         0   (2,176)   (2,409)   (2,746)   (3,050)   (3,322)   (3,539)
      TOTAL
(706)        BASE                 0    12,669    12,513    12,349    13,553    14,597    16,069    17,326
             SAVINGS
(707)        SUBTOTAL             0         0       912     2,443     4,959     6,291     8,368     8,005
(708)        NET                  0    12,669    11,601     9,906     8,634     8,306     7,701     9,321

    AGRICULTURE
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      FARM INCOME STABILIZATION
(709)        BASE               351    20,628    14,028    13,198    12,572    11,859    11,654    12,940
             SAVINGS
(710)            AG-22          351         0        25        70       133       167       206       226
(711)            AG-23          351         0         6        17        33        42        51        57
(712)            AG-35          351         0         2         7        13        17        21        23
(713)            AG-36          351         0         0         0         0         0         0         0
(714)            AG-40          351         0         1         2         3         4         4         5
(715)            ASSET-05       351         0        97       186       273       188       193        45
(716)            ASSET-06       351         0         0         1         2         3         3         4
(717)            ASSET-18       351         0       587     1,658     3,159     3,973     4,881     5,419
(718)            ASSET-21       351         0         0         0         0         0         1         1
(719)            ASSET-99       351         0       247       465       665       418       411         0
(720)            BUSIN-08       351         0        16        45        86       109       133       148
(721)            PER-03         351         0         0         1         2         2         2         3
(722)            PER-04         351         0         0         1         1         1         2         2
(723)            PER-05         351         0         0         1         2         3         4         4
(724)            PER-06         351         0         0         1         2         2         2         3
(725)            PER-07         351         0         0         0         1         1         1         1
(726)            PER-12         351         0         1         2         5         6         7         8
(727)            PROP-99        351         0         0         1         1         1         1         1
(728)            PROC-02        351         0         1         2         4         5         6         6
(729)            PROC-04        351         0         2         6        12        15        19        21
(730)            PROC-19        351         0         0         0         0         0         1         1
(731)            PROC-22        351         0         1         2         4         5         6         6
(732)            PROF-06        351         0         0         0         0         0         1         1
(733)            WAGE-02        351         0         7        20        37        47        58        64
(734)            WAGE-03        351         0         5        15        29        36        45        50
(735)        SUBTOTAL           351         0     1,001     2,505     4,468     5,045     6,057     6,099
(736)        NET                351    20,628    13,027    10,693     8,104     6,814     5,597     6,841
      AGRICULTURAL RESEARCH AND SERVICES
(737)        BASE               352     1,570     1,859     2,001     2,171     2,356     2,539     2,723
             SAVINGS
(738)            AG-15          352         0         1         4         9        13        18        19
(739)            AG-16          352         0        11        35        77       111       150       160
(740)            AG-17          352         0         1         3         7        10        14        14
(741)            AG-18          352         0         0         1         1         2         3         3
(742)            AG-19          352         0         0         0         1         1         2         2
(743)            AG-29          352         0         1         3         6         8        11        12
(744)            AG-51          352         0         5        15        32        46        62        67
(745)            AG-52          352         0         3        10        21        30        41        44
(746)            AG-53          352         0         5        16        35        50        68        72
(747)            AG-54          352         0         1         4         9        13        17        18
(748)            AG-55          352         0         0         2         3         5         6         7
(749)            ASSET-06       352         0         3        10        22        32        43        47
(750)            EXTRAP-03      352         0         0         0         1         1         2         2
(751)            PER-03         352         0         2         6        14        20        27        29
(752)            PER-04         352         0         2         6        13        19        25        27
(753)            PER-05         352         0         3        10        22        32        44        47
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(754)	PER-06	352	0	2	7	15	21	29	31
(755)	PEN-07	352	0	1	3	6	9	12	13
(756)	PEN-12	352	0	7	22	48	70	94	101
(757)	PPAV-01	352	0	1	2	5	7	9	10
(758)	PPAV-03	352	0	0	1	1	2	3	4
(759)	PROF-99	352	0	0	1	2	4	5	5
(760)	PPAV-05	352	0	0	1	2	3	3	4
(761)	PPAV-06	352	0	1	2	4	6	8	9
(762)	PROF-05	352	0	0	0	1	1	2	2
(763)	PROF-06	352	0	1	2	4	6	8	9
(764)	R&D-05	352	0	1	2	5	7	10	10
(765)	TTM-01	352	0	1	2	5	8	10	11
(766)	TTM-02	352	0	0	1	1	1	2	2
(767)	TTM-03	352	0	1	3	6	9	12	13
(768)	TTM-04	352	0	1	2	5	7	9	9
(769)	USAF-12	352	0	0	0	1	1	2	2
(770)	USER-11	352	0	1	3	7	11	14	15
(771)	USER-12	352	0	0	1	2	4	5	5
(772)	SUBTOTAL	352	0	56	181	394	570	767	823
(773)	NET	352	1,578	1,803	1,820	1,777	1,786	1,772	1,900
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(774)	BASE	353	0	(6)	(6)	(6)	(6)	(6)	(6)
	SAVINGS								
(775)	AC-20	353	0	0	0	1	1	2	2
(776)	SUBTOTAL	353	0	0	0	1	1	2	2
(777)	NET	353	0	(6)	(6)	(7)	(7)	(8)	(8)
	TOTAL								
(778)	BASE	0	22,206	15,881	15,193	14,737	14,209	14,187	15,657
	SAVINGS								
(779)	SUBTOTAL	0	0	1,057	2,687	4,862	5,616	6,826	6,924
(780)	NET	0	22,206	14,824	12,506	9,875	8,593	7,361	8,733

COMMERCE AND HOUSING CREDIT

	MORTGAGE CREDIT AND THRIFT INSURANCE								
(781)	BASE	371	2,125	1,216	1,216	1,316	1,416	1,516	1,616
	SAVINGS								
(782)	ADP-04	371	0	65	204	428	601	797	849
(783)	ADP-05	371	0	7	21	44	61	81	87
(784)	ADP-06	371	0	116	365	767	1,077	1,428	1,522
(785)	AC-05	371	0	0	1	2	2	3	3
(786)	ASSET-06	371	0	1	2	3	5	6	7
(787)	ASSET-15	371	0	4	13	27	38	50	53
(788)	ASSET-18	371	0	914	2,866	6,020	8,457	11,210	11,952
(789)	ASSET-99	371	0	362	757	1,193	838	888	0
(790)	ASSET-20	371	0	6	17	36	51	68	72
(791)	ASSET-30	371	0	4	14	29	41	54	57
(792)	BANK-20	371	0	1	2	4	6	8	9
(793)	BANK-21	371	0	4	8	12	8	9	0
(794)	BANK-24	371	0	0	0	1	1	1	1
(795)	BANK-27	371	0	3	10	22	30	40	43
(796)	BANK-36	371	0	1	2	3	2	2	0
(797)	BUSIN-10	371	0	1	4	8	11	14	15
(798)	BUSIN-11	371	0	1	3	6	9	12	14
(799)	HUD-01	371	0	39	98	181	200	250	205
(800)	HUD-02	371	0	3	8	18	25	33	35
(801)	HUD-04	371	0	3	10	21	30	39	42
(802)	HUD-07	371	0	3	9	19	26	35	37
(803)	HUD-10	371	0	2	5	10	14	19	20
(804)	PEN-03	371	0	0	1	2	3	4	4

(805)	PER-04	371	0	0	1	2	3	4	4
(806)	PER-05	371	0	1	2	4	5	7	7
(807)	PER-06	371	0	0	1	2	3	4	4
(808)	PER-07	371	0	0	0	1	1	1	1
(809)	PER-12	371	0	1	4	9	12	16	17
(810)	PROP-99	371	0	0	0	1	1	1	1
(811)	PROP-06	371	0	0	0	1	1	1	1
(812)	USER-13	371	0	0	0	0	0	1	1
(813)	SUBTOTAL	371	0	1,541	4,428	8,872	11,561	15,086	15,066
(814)	NET	371	2,125	(325)	(3,212)	(7,556)	(10,145)	(13,570)	(13,450)
	POSTAL SERVICE								
(815)	BASE	372	789	1,000	1,000	1,000	1,000	1,000	1,000
	SAVINGS								
(816)	LAND-02	372	0	1	4	8	11	13	13
(817)	PRIV-07	372	0	38	103	194	238	292	271
(818)	SUBTOTAL	372	0	39	107	203	249	305	284
(819)	NET	372	789	961	893	797	751	695	716
	OTHER ADVANCEMENT OF COMMERCE								
(820)	BASE	376	1,508	2,199	2,355	2,558	2,753	2,955	3,219
	SAVINGS								
(821)	ADP-04	376	0	11	35	77	110	147	161
(822)	ADP-05	376	0	1	3	7	11	14	16
(823)	ADP-06	376	0	20	63	136	195	262	288
(824)	ASSET-06	376	0	5	16	35	50	67	73
(825)	ASSET-18	376	0	35	112	244	351	470	512
(826)	ASSET-99	376	0	56	119	194	139	149	0
(827)	ASSET-21	376	0	4	14	30	42	57	64
(828)	BUSCP-T1	376	0	2	6	13	18	24	27
(829)	BUSFC-C3	376	0	6	20	45	65	87	96
(830)	BUSFT-C1	376	0	0	1	2	2	3	3
(831)	BUSFT-C2	376	0	0	0	0	1	2	2
(832)	COMM-01	376	0	5	15	32	46	61	67
(833)	COMM-02	376	0	2	8	17	24	32	35
(834)	COMM-03	376	0	2	4	6	5	5	8
(835)	COMM-07	376	0	1	3	6	9	12	13
(836)	EXTRAP-03	376	0	0	1	2	3	4	4
(837)	PER-03	376	0	3	10	21	31	41	45
(838)	PER-04	376	0	3	10	21	31	41	45
(839)	PER-05	376	0	5	16	34	49	65	71
(840)	PER-06	376	0	3	10	22	32	43	47
(841)	PER-07	376	0	1	4	10	14	18	20
(842)	PER-12	376	0	11	35	77	110	147	161
(843)	PPAV-01	376	0	1	4	9	13	17	19
(844)	PPAV-03	376	0	0	1	3	4	6	7
(845)	PROP-99	376	0	9	19	32	25	28	6
(846)	PPAV-05	376	0	1	2	4	6	8	9
(847)	PPAV-06	376	0	1	4	9	12	16	18
(848)	PROP-05	376	0	0	0	1	1	2	2
(849)	PROP-06	376	0	1	3	6	9	12	13
(850)	SBA-01	376	0	1	2	4	6	8	9
(851)	SBA-03	376	0	3	9	20	29	39	43
(852)	SBA-06	376	0	1	5	10	14	19	21
(853)	SBA-07	376	0	1	3	6	9	12	13
(854)	SBA-09	376	0	0	1	2	2	3	3
(855)	SBA-12	376	0	0	0	1	1	2	2
(856)	WAGE-03	376	0	1	4	8	12	16	17
(857)	SUBTOTAL	376	0	196	562	1,145	1,480	1,943	1,926
(858)	NET	376	1,508	2,003	1,793	1,413	1,273	1,012	1,293
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(859)	BASE	377	0	(6)	(6)	(6)	(6)	(6)	(6)

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              SAVINGS
(860)            AG-06             377         0         4        12        25        34        46        49
(861)         SUBTOTAL             377         0         4        12        25        34        46        49
(862)         NET                  377         0      (10)      (18)      (31)      (40)      (52)      (55)
          TOTAL
(863)         BASE                   0     4,422     4,409     4,565     4,868     5,163     5,465     5,829
              SAVINGS
(864)         SUBTOTAL               0         0     1,780     5,108    10,244    13,325    17,380    17,325
(865)         NET                    0     4,422     2,629     (543)   (5,376)   (8,162)  (11,915)  (11,496)
      TRANSPORTATION
      --------------
          GROUND TRANSPORTATION
(866)         BASE                 401    14,316    17,867    19,104    21,127    23,456    25,875    28,218
              SAVINGS
(867)            ADP-04            401         0         8        25        56        82       113       124
(868)            ADP-05            401         0         1         3         6         8        11        12
(869)            ADP-06            401         0        14        45       100       148       204       223
(870)            ASSET-04          401         0        69       153       264       225       265        91
(871)            ASSET-06          401         0         1         4         9        13        18        20
(872)            ASSET-99          401         0        22        46        77        57        63         0
(873)            CONG-03           401         0         0         1         3         4         5         6
(874)            CONST-01          401         0         7        21        47        69        96       104
(875)            CONST-05          401         0        15        48       106       157       217       237
(876)            CONST-06          401         0         1         3         7        10        14        15
(877)            CONST-08          401         0         2         6        14        21        29        34
(878)            CONST-09          401         0         1         3         7        10        14        15
(879)            CONST-10          401         0         0         1         2         3         4         4
(880)            CONST-11          401         0         0         0         0         1         1         1
(881)            CONST-13          401         0        81       173       288       213       235         0
(882)            CONST-18          401         0        20        64       143       211       291       317
(883)            CONST-19          401         0        10        32        71       105       145       158
(884)            CONST-21          401         0         7        24        57        77       107       116
(885)            EXTRAP-03         401         0         0         0         1         1         2         2
(886)            PER-03            401         0         1         3         6         8        11        12
(887)            PER-04            401         0         1         3         6         8        11        12
(888)            PER-05            401         0         1         4         9        14        19        21
(889)            PER-06            401         0         1         3         6        10        13        14
(890)            PER-07            401         0         0         1         3         4         6         6
(891)            PER-12            401         0         3         8        19        27        38        41
(892)            PROP-99           401         0         2         4         7         5         5         0
(893)            PROP-06           401         0         0         1         2         3         4         4
(894)            TRANS-04          401         0         1         3         8        12        17        19
(895)            TRANS-05          401         0         1         5        10        15        21        24
(896)            TRANS-06          401         0        39       124       275       407       561       612
(897)            TRANS-07          401         0         9        28        62        92       127       139
(898)            TRANS-10          401         0         5        15        34        50        69        75
(899)            TRANS-11          401         0         0         2         4         6         9        11
(900)            TRANS-12          401         0         0         1         3         5         7         8
(901)            TRANS-13          401         0         1         3         8        14        20        24
(902)            TRANS-14          401         0         0         0         1         1         2         2
(903)            TREAS-03          401         0         6        19        43        65        90        99
(904)            WAGE-01           401         0        96       309       683     1,011     1,394     1,520
(905)            WAGE-02           401         0         4        12        27        39        54        59
(906)            WAGE-03           401         0         6        20        45        67        92       101
(907)         SUBTOTAL             401         0       437     1,223     2,510     3,280     4,403     4,278
(908)         NET                  401    14,316    17,430    17,881    18,617    20,176    21,472    23,940
          AIR TRANSPORTATION
(909)         BASE                 402     4,000     4,946     5,296     5,734     6,250     6,815     7,385
              SAVINGS
(910)            ASSET-06          402         0         8        25        55        80       109       118
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(911)	BUSCA-B1	402	0	1	2	4	3	3	0
(912)	BUSCA-B2	402	0	0	1	2	1	1	0
(913)	BUSCA-B3	402	0	0	0	0	0	0	0
(914)	CONG-03	402	0	0	1	2	3	4	4
(915)	EXTRAP-03	402	0	0	1	3	4	5	8
(916)	PER-03	402	0	5	15	33	48	66	71
(917)	PER-04	402	0	5	15	33	48	66	71
(918)	PER-05	402	0	8	25	55	80	109	118
(919)	PER-06	402	0	5	17	36	52	71	77
(920)	PER-07	402	0	2	7	15	22	30	33
(921)	PER-12	402	0	17	55	119	172	235	255
(922)	PER-17	402	0	0	0	1	1	2	2
(923)	PROP-99	402	0	3	8	15	17	21	17
(924)	PROP-05	402	0	0	0	1	1	2	2
(925)	PROP-06	402	0	1	4	9	14	19	20
(926)	TRANS-04	402	0	0	1	2	4	5	6
(927)	TRANS-05	402	0	1	2	4	5	7	8
(928)	TRANS-15	402	0	45	100	169	142	165	56
(929)	TRANS-16	402	0	6	19	41	60	81	88
(930)	TRANS-17	402	0	2	7	16	23	31	34
(931)	TRANS-18	402	0	0	3	10	22	32	42
(932)	TTM-01	402	0	2	5	11	16	21	23
(933)	TTM-02	402	0	0	1	2	3	4	4
(934)	USAF-12	402	0	0	1	2	3	3	4
(935)	SUBTOTAL	402	0	113	318	640	823	1,093	1,058
(936)	NET	402	4,000	4,833	4,978	5,094	5,427	5,722	6,327
	WATER TRANSPORTATION								
(937)	BASE	403	2,969	3,379	3,572	3,858	4,195	4,463	4,735
	SAVINGS								
(938)	ASSET-06	403	0	1	3	5	8	11	11
(939)	ASSET-99	403	0	2	4	6	5	5	0
(940)	BUSPM-C1	403	0	0	0	1	1	2	2
(941)	CONG-01	403	0	4	11	24	45	47	49
(942)	PER-03	403	0	0	2	3	5	6	7
(943)	PER-04	403	0	0	2	3	5	6	7
(944)	PER-05	403	0	1	3	6	8	11	12
(945)	PER-06	403	0	0	2	3	5	6	7
(946)	PER-07	403	0	0	1	2	2	3	3
(947)	PER-12	403	0	2	6	13	19	25	27
(948)	PROP-99	403	0	2	5	8	8	9	5
(949)	PROP-06	403	0	0	0	1	1	2	2
(950)	TRANS-04	403	0	0	1	1	2	3	3
(951)	TRANS-05	403	0	0	1	2	4	5	5
(952)	TRANS-19	403	0	57	179	307	562	747	792
(953)	TRANS-20	403	0	3	9	19	27	36	38
(954)	TRANS-21	403	0	1	3	7	9	13	13
(955)	TRANS-22	403	0	1	4	9	14	18	19
(956)	SUBTOTAL	403	0	75	234	502	718	953	1,002
(957)	NET	403	2,969	3,304	3,338	3,356	3,477	3,510	3,733
	OTHER TRANSPORTATION								
(958)	BASE	407	99	132	142	155	168	180	191
	SAVINGS								
(959)	ASSET-06	407	0	0	1	3	4	5	6
(960)	ASSET-99	407	0	0	0	0	0	0	0
(961)	PER-03	407	0	0	1	2	3	4	4
(962)	PER-04	407	0	0	1	2	3	4	4
(963)	PER-05	407	0	0	1	3	4	6	6
(964)	PER-06	407	0	0	1	2	3	4	4
(965)	PER-07	407	0	0	0	1	1	2	2
(966)	PER-12	407	0	1	4	8	11	15	16

(967)	PROP-99	407	0	1	2	3	2	2	0
(968)	PROP-06	407	0	0	0	1	1	2	2
(969)	SUBTOTAL	407	0	4	12	25	33	44	44
(970)	NET	407	99	128	130	130	135	136	147
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(971)	BASE	408	0	(52)	(52)	(52)	(52)	(52)	(52)
	SAVINGS								
(972)	SUBTOTAL	0	0	0	0	0	0	0	0
(973)	NET	0	0	(52)	(52)	(52)	(52)	(52)	(52)
	TOTAL								
(974)	BASE	0	21,384	26,272	28,062	30,822	34,017	37,281	40,477
	SAVINGS								
(975)	SUBTOTAL	0	0	629	1,787	3,676	4,855	6,492	6,381
(976)	NET	0	21,384	25,643	26,275	27,146	29,162	30,789	34,096
	COMMUNITY AND REGIONAL DEVELOPMENT								
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	COMMUNITY DEVELOPMENT								
(977)	BASE	451	4,293	4,566	5,072	5,553	6,210	6,887	7,458
	SAVINGS								
(978)	ASSET-06	451	0	2	6	13	20	27	30
(979)	ASSET-15	451	0	1	4	9	14	19	21
(980)	ASSET-99	451	0	11	24	40	30	33	0
(981)	BUSIN-04	451	0	3	6	10	8	8	0
(982)	EXTRAP-03	451	0	0	0	1	1	2	2
(983)	PER-03	451	0	1	4	8	12	17	18
(984)	PER-04	451	0	1	4	8	12	17	18
(985)	PER-05	451	0	2	6	13	19	27	29
(986)	PER-06	451	0	1	4	9	13	18	20
(987)	PER-07	451	0	0	1	3	5	7	7
(988)	PER-12	451	0	4	13	29	44	60	65
(989)	PROP-99	451	0	3	7	12	10	11	2
(990)	PROP-06	451	0	0	1	2	3	5	5
(991)	SUBTOTAL	451	0	30	82	158	190	251	217
(992)	NET	451	4,293	4,536	4,990	5,395	6,020	6,636	7,241
	AREA AND REGIONAL DEVELOPMENT								
(993)	BASE	452	2,644	3,572	2,914	3,013	3,293	3,618	4,049
	SAVINGS								
(994)	AG-35	452	0	3	7	14	20	27	31
(995)	ASSET-06	452	0	3	6	13	19	26	29
(996)	ASSET-18	452	0	270	661	1,367	1,993	2,737	3,063
(997)	ASSET-99	452	0	96	157	243	177	195	0
(998)	ASSET-21	452	0	1	2	3	5	7	6
(999)	COMM-04	452	0	8	14	21	16	17	0
(1000)	CONG-02	452	0	1	2	3	5	7	8
(1001)	EXTRAP-03	452	0	0	0	1	1	1	2
(1002)	PER-03	452	0	2	4	8	11	16	18
(1003)	PER-04	452	0	2	4	8	11	16	18
(1004)	PER-05	452	0	3	6	13	19	26	29
(1005)	PER-06	452	0	2	4	9	12	17	19
(1006)	PER-07	452	0	1	2	4	5	7	8
(1007)	PER-12	452	0	6	14	29	42	57	64
(1008)	PROP-99	452	0	1	2	4	4	5	3
(1009)	PROP-06	452	0	0	1	2	3	4	5
(1010)	SUBTOTAL	452	0	397	885	1,742	2,343	3,165	3,302
(1011)	NET	452	2,644	3,175	2,029	1,271	950	453	747
	DISASTER RELIEF AND INSURANCE								
(1012)	BASE	453	(1)	645	660	693	733	718	646
	SAVINGS								
(1013)	ASSET-06	453	0	0	1	2	3	4	4

(1014)	ASSET-99	453	0	53	112	178	124	131	0
(1015)	BUSIN-03	453	0	0	2	3	5	6	6
(1016)	BUSIN-05	453	0	1	2	4	3	3	8
(1017)	FEMA-01	453	0	21	65	137	193	256	273
(1018)	FEMA-02	453	0	11	35	74	183	137	148
(1019)	FEMA-03	453	0	0	1	2	3	4	4
(1020)	P&R-03	453	0	0	1	1	2	3	3
(1021)	P&R-04	453	0	0	1	1	2	3	3
(1022)	P&R-05	453	0	0	1	2	3	4	4
(1023)	P&R-06	453	0	0	1	1	2	3	3
(1024)	P&R-07	453	0	0	0	1	1	1	1
(1025)	P&R-12	453	0	0	1	3	4	5	6
(1026)	PROP-99	453	0	0	1	1	1	1	0
(1027)	SBA-04	453	0	1	2	5	7	10	10
(1028)	SBA-05	453	0	0	1	3	4	6	8
(1029)	SUBTOTAL	453	0	91	227	417	459	575	470
(1030)	NET	453	(1)	554	433	278	274	143	176
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(1031)	BASE	454	0	(24)	(27)	(27)	(28)	(30)	(33)
	SAVINGS								
(1032)	SUBTOTAL	0	0	0	0	0	0	0	0
(1033)	NET	0	0	(24)	(27)	(27)	(28)	(30)	(33)
	TOTAL								
(1034)	BASE	0	6,936	8,759	8,619	9,232	10,208	11,193	12,120
	SAVINGS								
(1035)	SUBTOTAL	0	0	518	1,194	2,317	2,993	3,991	3,989
(1036)	NET	0	6,936	8,241	7,425	6,915	7,215	7,202	8,131
	EDUCATION, TRAINING, EMPLOYMENT, AND SOCIAL SERVICES								
	ELEMENTARY, SECONDARY, AND VOCATIONAL EDUCATION								
(1037)	BASE	501	6,294	7,174	7,671	8,336	9,012	9,627	10,215
	SAVINGS								
(1038)	ASSET-04	501	0	23	51	86	71	81	26
(1039)	CONG-02	501	0	1	2	4	6	8	8
(1040)	EDUC-04	501	0	16	38	69	69	84	55
(1041)	EDUC-05	501	0	5	11	18	13	14	0
(1042)	EDUC-06	501	0	1	3	6	10	14	16
(1043)	EDUC-07	501	0	0	1	3	7	11	15
(1044)	EDUC-08	501	0	1	4	8	12	15	16
(1045)	SUBTOTAL	501	0	46	109	194	188	226	137
(1046)	NET	501	6,294	7,128	7,562	8,142	8,824	9,401	10,078
	HIGHER EDUCATION								
(1047)	BASE	502	7,231	7,577	7,444	7,968	8,627	9,382	10,134
	SAVINGS								
(1048)	ASSET-04	502	0	21	43	72	59	69	22
(1049)	ASSET-99	502	0	95	187	300	216	235	0
(1050)	ASSET-19	502	0	50	147	314	453	616	666
(1051)	EDUC-01	502	0	242	547	991	1,042	1,310	959
(1052)	EDUC-02	502	0	16	60	143	237	330	393
(1053)	EDUC-03	502	0	13	43	97	152	210	240
(1054)	EDUC-05	502	0	5	14	30	43	59	64
(1055)	EDUC-07	502	0	0	1	2	6	9	13
(1056)	EDUC-09	502	0	1	3	5	5	6	4
(1057)	WAGE-03	502	0	0	1	3	4	5	6
(1058)	SUBTOTAL	502	0	443	1,045	1,956	2,218	2,850	2,366
(1059)	NET	502	7,231	7,134	6,399	6,012	6,409	6,532	7,768
	RESEARCH AND GENERAL EDUCATION AIDS								
(1060)	BASE	503	1,055	1,181	1,377	1,607	1,805	2,016	2,217
	SAVINGS								

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(1061)           EDUC-05          503        0        1        3        5        4        4        0
(1062)           EDUC-07          503        0        0        0        1        2        3        4
(1063)        SUBTOTAL            503        0        1        3        6        6        7        4
(1064)        NET                 503    1,055    1,180    1,374    1,601    1,799    2,009    2,213
      TRAINING AND EMPLOYMENT
(1065)        BASE                504    5,295    3,905    3,222    3,161    3,426    3,639    3,809
              SAVINGS
(1066)           ASSET-06         504        0        1        2        4        6        8        8
(1067)           EXTRAP-03        504        0        0        0        0        1        1        1
(1068)           PER-03           504        0        1        1        3        4        5        5
(1069)           PER-04           504        0        0        1        2        3        4        5
(1070)           PER-05           504        0        1        2        4        6        8        8
(1071)           PER-06           504        0        1        1        3        4        5        5
(1072)           PER-07           504        0        0        1        1        2        2        2
(1073)           PER-12           504        0        2        5        9       13       17       18
(1074)           PROP-99          504        0        1        2        3        2        3        1
(1075)           PROP-06          504        0        0        0        1        1        1        1
(1076)        SUBTOTAL            504        0        7       16       30       41       54       54
(1077)        NET                 504    5,295    3,898    3,206    3,131    3,385    3,585    3,755
      OTHER SERVICES
(1078)        BASE                505      599      708      776      853      940    1,037    1,145
              SAVINGS
(1079)           EXTRAP-03        505        0        0        0        1        1        2        2
(1080)           LABOR-03         505        0        0        0        0        1        1        1
(1081)           LABOR-04         505        0        2        6       13       19       26       29
(1082)           LABOR-05         505        0        1        3        7       11       15       17
(1083)           LABOR-06         505        0        0        0        1        1        1        1
(1084)           LABOR-08         505        0        0        0        1        1        1        1
(1085)           LABOR-09         505        0        0        0        1        1        2        2
(1086)           LABOR-11         505        0        0        0        0        0        0        0
(1087)           PER-03           505        0        1        3        7       11       15       16
(1088)           PER-04           505        0        1        3        7       11       15       16
(1089)           PER-05           505        0        2        5       12       17       24       26
(1090)           PER-06           505        0        1        3        7       11       15       16
(1091)           PER-07           505        0        0        1        3        4        5        6
(1092)           PER-12           505        0        3       11       25       37       51       56
(1093)           PROP-99          505        0        3        6       10        8        9        2
(1094)           PROP-06          505        0        0        1        2        3        3        4
(1095)        SUBTOTAL            505        0       14       45       96      134      184      195
(1096)        NET                 505      599      694      731      757      806      853      950
      SOCIAL SERVICES
(1097)        BASE                506    6,133    7,180    7,620    8,226    8,793    9,201    9,579
              SAVINGS
(1098)           ASSET-06         506        0        2        6       13       18       24       25
(1099)           HHSMGT-01        506        0        1        2        6        9       13       14
(1100)           HHSMGT-06        506        0        2        6       13       20       26       29
(1101)           HHSMGT-07        506        0        2        7       16       23       30       31
(1102)           PER-03           506        0        0        1        2        2        3        3
(1103)           PER-04           506        0        0        1        2        2        3        3
(1104)           PER-05           506        0        0        1        2        4        5        5
(1105)           PER-06           506        0        0        1        2        2        3        3
(1106)           PER-07           506        0        0        0        1        1        2        2
(1107)           PER-12           506        0        0        2        3        5        6        7
(1108)           PROP-99          506        0        0        1        2        1        1        0
(1109)           PROP-06          506        0        0        0        1        1        2        2
(1110)        SUBTOTAL            506        0        9       28       62       90      117      124
(1111)        NET                 506    6,133    7,171    7,592    8,164    8,703    9,084    9,455
      DEDUCTIONS FOR OFFSETTING RECEIPTS
(1112)        BASE                507        0     (72)     (78)     (85)     (93)    (101)    (110)
              SAVINGS
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(1113)          SUBTOTAL             0          0          0          0          0          0          0          0
(1114)          NET                  0          0       (72)       (78)       (85)       (93)      (101)      (110)
            TOTAL
(1115)          BASE                 0     26,607     27,653     28,032     30,066     32,510     34,801     36,989
                SAVINGS
(1116)          SUBTOTAL             0          0        520      1,245      2,343      2,676      3,438      2,879
(1117)          NET                  0     26,607     27,133     26,787     27,723     29,834     31,363     34,110

         HEALTH
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           HEALTH CARE SERVICES
(1118)          BASE               551     75,625     83,240     91,074    100,210    111,995    124,820    138,766
                SAVINGS
(1119)              ASSET-04       551          0        108        246        421        362        430        149
(1120)              ASSET-06       551          0          3         11         24         36         50         55
(1121)              ASSET-99       551          0          8         18         30         23         25          0
(1122)              BANK-16        551          0          1          3          6          9         12         14
(1123)              CONG-02        551          0          1          2          4          6          8          9
(1124)              EXTRAP-03      551          0          0          1          2          2          3          4
(1125)              HEALTH-01      551          0          6         21         45         68         94        105
(1126)              HEALTH-02      551          0         14         46        102        152        212        238
(1127)              HEALTH-03      551          0        469      1,539      3,386      5,046      7,030      7,815
(1128)              HEALTH-04      551          0        106        348        765      1,140      1,588      1,765
(1129)              HEALTH-05      551          0         47        160        358        549        769        874
(1130)              HEALTH-06      551          0          4         20         52         94        136        171
(1131)              HEALTH-08      551          0          1          4          9         14         19         21
(1132)              HOSP-09        551          0          0          1          1          2          3          3
(1133)              HOSP-12        551          0          7         23         50         75        105        117
(1134)              LISAB-01       551          0         21         69        152        226        315        350
(1135)              LISAB-04       551          0         23         76        168        250        348        387
(1136)              LISAB-05       551          0         28         92        202        301        419        466
(1137)              LISAB-08       551          0         35        109        240        357        497        553
(1138)              PER-02         551          0         46        152        334        498        693        771
(1139)              PER-03         551          0          2          6         14         21         29         33
(1140)              PER-04         551          0          2          6         14         21         29         33
(1141)              PER-05         551          0          3         11         23         35         48         54
(1142)              PER-06         551          0          2          7         16         24         33         37
(1143)              PER-07         551          0          1          3          7         10         14         15
(1144)              PER-12         551          0          7         24         53         79        110        123
(1145)              PHS-02         551          0          4         12         27         40         56         62
(1146)              PHS-03         551          0          6         20         44         65         91        101
(1147)              PHS-04         551          0          5         17         38         57         80         89
(1148)              PHS-08         551          0          0          1          3          5          8         10
(1149)              PHS-09         551          0          5         16         36         54         75         83
(1150)              PHS-10         551          0         13         47        109        174        246        285
(1151)              PROP-99        551          0          2          5          9          8         10          4
(1152)              PROP-05        551          0          0          0          1          1          2          2
(1153)              PROP-06        551          0          1          2          4          6          8          9
(1154)              R&D-04         551          0          1          4          9         13         18         20
(1155)              R&D-05         551          0          6         20         45         66         92        103
(1156)              R&D-06         551          0          9         28         62         93        130        145
(1157)              WAGE-03        551          0          5         17         37         54         76         84
(1158)          SUBTOTAL           551          0      1,002      3,187      6,902     10,036     13,912     15,159
(1159)          NET                551     75,625     82,238     87,887     93,308    101,959    110,908    123,607
           HEALTH RESEARCH
(1160)          BASE               552      3,973      4,624      5,015      5,462      5,911      6,203      6,777
                SAVINGS
(1161)              AG-53          552          0        (5)       (16)       (35)       (50)       (66)       (72)
(1162)              ASSET-06       552          0          2          6         12         18         24         26
(1163)              EXTRAP-03      552          0          0          0          1          1          2          2
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(1164)	PER-03	552	0	1	3	7	10	13	14
(1165)	PER-04	552	0	1	3	7	10	13	14
(1166)	PER-05	552	0	2	6	12	17	23	25
(1167)	PER-06	552	0	1	4	8	11	15	16
(1168)	PER-07	552	0	0	2	3	5	7	7
(1169)	PER-12	552	0	4	13	28	40	53	57
(1170)	PHS-01	552	0	19	63	138	199	264	288
(1171)	PHS-05	552	0	18	39	63	46	48	0
(1172)	PHS-06	552	0	1	2	4	6	5	9
(1173)	PROP-99	552	0	1	3	5	4	5	3
(1174)	PROP-06	552	0	0	1	2	4	5	5
(1175)	R&D-01	552	0	26	83	181	262	347	375
(1176)	R&D-02	552	0	13	42	92	132	175	189
(1177)	SUBTOTAL	552	0	84	253	529	715	935	957
(1178)	NET	552	3,973	4,540	4,762	4,933	5,196	5,328	5,820
	EDUCATION AND TRAINING OF HEALTH CARE WORK FORCE								
(1179)	BASE	553	578	670	670	670	670	670	670
	SAVINGS								
(1180)	ASSET-99	553	0	1	2	2	2	2	0
(1181)	SUBTOTAL	553	0	1	2	2	2	2	0
(1182)	NET	553	578	669	668	668	668	668	670
	CONSUMER AND OCCUPATIONAL HEALTH AND SAFETY								
(1183)	BASE	554	1,066	1,285	1,416	1,579	1,779	1,936	2,076
	SAVINGS								
(1184)	ASSET-06	554	0	3	10	22	33	45	49
(1185)	BUSCP-S1	554	0	0	0	0	1	1	1
(1186)	BUSCP-S2	554	0	0	0	1	1	2	2
(1187)	BUSCP-S3	554	0	0	0	0	1	1	1
(1188)	BUSGS-H2	554	0	0	0	0	0	1	1
(1189)	CONG-02	554	0	0	1	2	3	5	5
(1190)	EXTRAP-03	554	0	0	0	1	1	2	2
(1191)	PER-03	554	0	2	6	14	21	29	31
(1192)	PER-04	554	0	2	6	13	19	27	28
(1193)	PER-05	554	0	3	10	22	34	46	49
(1194)	PER-06	554	0	2	7	15	22	30	33
(1195)	PER-07	554	0	1	3	6	8	11	12
(1196)	PER-12	554	0	7	22	48	72	99	106
(1197)	PROP-99	554	0	3	7	11	9	10	2
(1198)	PROP-05	554	0	0	0	1	1	2	2
(1199)	PROP-06	554	0	0	2	4	5	7	8
(1200)	SUBTOTAL	554	0	23	73	161	234	316	330
(1201)	NET	554	1,066	1,262	1,343	1,418	1,545	1,620	1,746
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(1202)	BASE	555	0	(30)	(32)	(33)	(35)	(37)	(39)
	SAVINGS								
(1203)	SUBTOTAL	0	0	0	0	0	0	0	0
(1204)	NET	0	0	(30)	(32)	(33)	(35)	(37)	(39)
	TOTAL								
(1205)	BASE	0	81,242	89,789	98,143	107,888	120,320	133,652	148,250
	SAVINGS								
(1206)	SUBTOTAL	0	0	1,109	3,515	7,593	10,987	15,165	16,446
(1207)	NET	0	81,242	88,680	94,628	100,295	109,333	118,487	131,804
	INCOME SECURITY								
	SOCIAL SECURITY								
(1208)	BASE	601	170,724	187,973	202,808	224,933	250,360	282,628	319,794
	SAVINGS								
(1209)	ASSET-06	601	0	8	26	57	84	119	135
(1210)	EXTRAP-03	601	0	0	1	3	5	7	7

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(1211)              PER-03         601          0          5         16         35         52         73         82
(1212)              PER-04         601          0          5         16         35         52         73         82
(1213)              PER-05         601          0          8         26         57         85        119        135
(1214)              PER-06         601          0          5         17         37         55         78         88
(1215)              PER-07         601          0          2          7         16         23         33         37
(1216)              PER-12         601          0         17         57        126        186        203        297
(1217)              PER-17         601          0          0          0          1          1          2          2
(1218)              PROP-99        601          0         14         32         54         44         51         11
(1219)              PROP-05        601          0          0          1          2          2          3          4
(1220)              PROP-06        601          0          1          5         10         15         22         24
(1221)              SSA-04         601          0         42        136        302        449        633        716
(1222)              SSA-06         601          0        187        440        792        767        967        573
(1223)              SSA-07         601          0         10         31         68        102        143        162
(1224)              SSA-09         601          0          4         10         22         29         39         40
(1225)              SSA-10         601          0        121        393        871      1,293      1,824      2,064
(1226)              WAGE-03        601          0          5         16         36         54         76         88
(1227)          SUBTOTAL           601          0        436      1,228      2,523      3,297      4,526      4,548
(1228)          NET                601    170,724    187,537    201,580    222,410    247,063    278,102    315,246
            OTHER       /
(1229)          BASE               606      5,581      7,967      8,430      8,976      9,584     10,330     11,157
                SAVINGS
(1230)              BANK-01        606          0         15         46         99        141        189        205
(1231)              BANK-02        606          0          1          4          9         13         18         19
(1232)              BANK-03        606          0         39         83        132         94        101          0
(1233)              BANK-04        606          0          6         19         40         57         77         84
(1234)              BANK-05        606          0        144        457        973      1,385      1,866      2,016
(1235)              BANK-12        606          0         56        177        377        536        722        780
(1236)              BANK-14        606          0         39        123        261        372        501        541
(1237)              BANK-15        606          0          1          4          8         11         15         17
(1238)              BANK-17        606          0          0          0          1          1          2          2
(1239)          SUBTOTAL           606          0        301        914      1,900      2,611      3,493      3,663
(1240)          NET                606      5,581      7,666      7,524      7,076      6,973      6,837      7,494
        GENERAL RETIREMENT & DISABILITY INSURANCE
(1241)      BASE                     0    176,305    195,940    211,246    233,909    259,944    292,958    330,951
            SAVINGS
(1242)      SUBTOTAL                 0          0        736      2,142      4,424      5,908      8,018      8,211
(1243)      NET                      0    176,305    195,204    209,104    229,485    254,036    284,940    322,740
        FEDERAL EMPLOYEE RETIREMENT AND DISABILITY
(1244)      BASE                   602     20,563     21,790     23,718     26,415     29,875     33,776     37,993
            SAVINGS
(1245)          LABOR-01           602          0         10         33         73        110        156        176
(1246)          RETIRE-04          602          0        378      1,236      2,752      4,151      5,866      6,598
(1247)      SUBTOTAL               602          0        388      1,269      2,826      4,261      6,022      6,773
(1248)      NET                    602     20,563     21,402     22,449     23,589     25,614     27,754     31,220
        UNEMPLOYMENT COMPENSATION
(1249)      BASE                   603     31,464     20,782     17,436     17,680     18,795     20,590     23,642
            SAVINGS
(1250)          LISAB-04           603          0        (1)        (1)          2          8         13         23
(1251)          WAGE-03            603          0          4          9         19         27         37         43
(1252)      SUBTOTAL               603          0          2          9         21         36         51         66
(1253)      NET                    603     31,464     20,780     17,427     17,659     18,759     20,539     23,576
        HOUSING ASSISTANCE
(1254)      BASE                   604      9,556     10,200     11,219     12,232     13,232     14,499     15,640
            SAVINGS
(1255)          ASSET-04           604          0         92        210        358        297        347        116
(1256)          ASSET-99           604          0         22         49         80         58         63          0
(1257)          CONST-05           604          0          5         17         38         54         74         88
(1258)          CONST-08           604          0          1          7          5          7          9         10
(1259)          CONST-10           604          0          0          0          1          1          2          2
(1260)          CONST-16           604          0          7         23         50         72         99        106
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(1261)	CONST-19	604	0	3	11	25	35	49	52
(1262)	CONST-21	604	0	3	8	18	27	36	35
(1263)	HUD-05	604	0	60	199	434	626	857	925
(1264)	LISAB-04	604	0	8	27	58	84	115	124
(1265)	WAGE-03	604	0	1	4	8	11	15	16
(1266)	SUBTOTAL	604	0	202	551	1,074	1,272	1,667	1,471
(1267)	NET	604	9,556	9,998	10,668	11,158	11,960	12,832	14,169
	FOOD AND NUTRITION ASSISTANCE								
(1268)	BASE	605	17,952	17,925	18,104	19,806	21,842	24,507	27,345
	SAVINGS								
(1269)	AG-09	605	0	104	315	688	1,012	1,420	1,584
(1270)	AG-10	605	0	25	76	167	246	344	384
(1271)	AG-11	605	0	4	13	28	41	57	64
(1272)	AG-12	605	0	1	3	6	9	12	14
(1273)	AG-13	605	0	52	158	345	507	711	794
(1274)	AG-14	605	0	16	49	107	158	221	247
(1275)	ASSET-04	605	0	71	149	254	215	257	98
(1276)	ASSET-06	605	0	0	1	2	3	4	5
(1277)	FEED-03	605	0	3	8	17	25	35	39
(1278)	LISAB-01	605	0	1	4	9	14	19	21
(1279)	LISAB-04	605	0	17	53	116	170	239	267
(1280)	LISAB-05	605	0	13	38	84	124	173	193
(1281)	PER-03	605	0	0	1	1	2	3	3
(1282)	PER-04	605	0	0	0	1	1	1	2
(1283)	PER-05	605	0	0	1	1	2	3	3
(1284)	PER-06	605	0	0	1	1	2	3	3
(1285)	PER-07	605	0	0	0	1	1	1	2
(1286)	PER-12	605	0	0	1	3	4	6	6
(1287)	PPAV-01	605	0	0	1	2	3	5	5
(1288)	PPAV-03	605	0	0	0	1	1	1	2
(1289)	PPAV-05	605	0	0	1	1	2	3	3
(1290)	PPAV-06	605	0	0	1	2	3	4	5
(1291)	SUBTOTAL	605	0	310	872	1,837	2,544	3,524	3,735
(1292)	NET	605	17,952	17,615	17,232	17,969	19,298	20,983	23,614
	OTHER INCOME SECURITY								
(1293)	BASE	609	21,096	23,419	24,751	26,516	28,317	30,162	33,017
	SAVINGS								
(1294)	ADP-04	609	0	8	26	57	81	108	118
(1295)	ADP-05	609	0	1	3	6	8	10	11
(1296)	ADP-06	609	0	15	47	101	144	191	209
(1297)	ASSET-04	609	0	64	140	235	192	218	74
(1298)	ASSET-06	609	0	1	2	5	8	10	11
(1299)	HHSMGT-02	609	0	5	20	45	70	95	112
(1300)	HHSMGT-04	609	0	2	5	10	15	20	22
(1301)	HHSMGT-05	609	0	1	4	8	11	15	18
(1302)	LISAB-01	609	0	8	27	57	82	109	119
(1303)	LISAB-02	609	0	17	44	81	89	111	90
(1304)	LISAB-04	609	0	23	72	155	220	293	321
(1305)	LISAB-05	609	0	14	45	96	136	182	199
(1306)	PER-03	609	0	0	1	3	5	6	7
(1307)	PER-04	609	0	0	1	3	5	6	7
(1308)	PER-05	609	0	1	3	6	8	10	11
(1309)	PER-06	609	0	0	1	3	5	6	7
(1310)	PER-07	609	0	0	1	2	2	3	3
(1311)	PER-12	609	0	2	6	13	18	24	26
(1312)	PROF-99	609	0	1	3	4	3	3	0
(1313)	PROP-06	609	0	0	0	1	1	1	2
(1314)	SSA-05	609	0	13	27	44	31	33	0
(1315)	SSA-06	609	0	4	12	26	37	49	54
(1316)	SUBTOTAL	609	0	182	490	959	1,169	1,504	1,417

(1317)	NET	609	21,096	23,237	24,261	25,557	27,148	28,658	31,600
	TOTAL								
(1318)	BASE	0	276,936	290,056	306,474	336,558	372,005	416,492	468,592
	SAVINGS								
(1319)	SUBTOTAL	0	0	1,821	5,333	11,140	15,190	20,785	21,675
(1320)	NET	0	276,936	288,235	301,141	325,418	356,815	395,707	446,917
	VETERANS BENEFITS AND SERVICES								
	INCOME SECURITY FOR VETERANS								
(1321)	BASE	701	14,250	14,866	16,168	17,193	18,681	19,999	21,464
	SAVINGS								
(1322)	ADP-04	701	0	7	24	51	73	98	105
(1323)	ADP-05	701	0	1	2	5	8	10	11
(1324)	ADP-06	701	0	13	43	91	132	176	188
(1325)	ASSET-99	701	0	13	28	44	32	34	0
(1326)	VETS-01	701	0	9	28	59	86	115	124
(1327)	VETS-02	701	0	46	152	324	471	630	678
(1328)	VETS-06	701	0	3	9	19	27	36	39
(1329)	SUBTOTAL	701	0	92	285	593	828	1,100	1,145
(1330)	NET	701	14,250	14,774	15,883	16,600	17,853	18,899	20,319
	VETERANS EDUCATION, TRAINING, AND REHAB.								
(1331)	BASE	702	1,625	1,322	1,119	1,074	1,123	1,192	1,241
	SAVINGS								
(1332)	ASSET-99	702	0	0	1	1	1	1	0
(1333)	SUBTOTAL	702	0	0	1	1	1	1	0
(1334)	NET	702	1,625	1,322	1,118	1,073	1,122	1,191	1,241
	HOSPITAL AND MEDICAL CARE FOR VETERANS								
(1335)	BASE	703	8,272	8,649	9,462	10,323	11,192	12,180	13,305
	SAVINGS								
(1336)	ASSET-06	703	0	16	54	118	170	231	253
(1337)	EXTRAP-03	703	0	1	3	6	9	12	13
(1338)	HOSP-04	703	0	239	783	1,709	2,470	3,360	4,070
(1339)	HOSP-05	703	0	91	251	498	610	800	744
(1340)	HOSP-07	703	0	(38)	(84)	(137)	(99)	(108)	0
(1341)	HOSP-08	703	0	10	25	44	43	54	34
(1342)	HOSP-09	703	0	5	17	37	54	73	80
(1343)	HOSP-12	703	0	31	101	220	318	433	474
(1344)	HOSP-13	703	0	48	156	341	492	670	732
(1345)	PER-03	703	0	10	33	72	104	142	155
(1346)	PER-04	703	0	10	32	70	102	139	151
(1347)	PER-05	703	0	16	53	117	169	229	250
(1348)	PER-06	703	0	11	35	77	111	151	165
(1349)	PER-07	703	0	4	15	32	46	63	69
(1350)	PER-12	703	0	36	118	257	371	505	551
(1351)	PER-17	703	0	0	1	2	2	3	3
(1352)	PROF-99	703	0	2	6	12	13	16	13
(1353)	PROC-22	703	0	1	3	7	11	15	16
(1354)	PROP-05	703	0	0	1	2	3	4	5
(1355)	PROP-06	703	0	3	10	21	30	41	45
(1356)	WAGE-03	703	0	2	7	16	23	31	34
(1357)	SUBTOTAL	703	0	498	1,620	3,519	5,052	6,863	7,457
(1358)	NET	703	8,272	8,151	7,842	6,804	6,140	5,317	5,848
	VETERANS HOUSING								
(1359)	BASE	704	3	20	42	44	46	49	54
	SAVINGS								
(1360)	ASSET-99	704	0	14	29	46	32	34	0
(1361)	ASSET-20	704	0	1	4	9	12	16	17
(1362)	VETS-04	704	0	7	22	47	86	87	93
(1363)	VETS-05	704	0	30	94	198	278	368	393

(1364)	SUBTOTAL	704	0	52	149	299	388	505	502
(1365)	NET	704	3	(32)	(107)	(255)	(342)	(456)	(450)
	OTHER VETERANS BENEFITS AND SERVICES								
(1366)	BASE	705	696	746	753	784	819	860	909
	SAVINGS								
(1367)	ASSET-06	705	0	2	7	15	21	27	29
(1368)	EXTRAP-03	705	0	0	0	1	1	1	1
(1369)	PER-03	705	0	1	4	9	13	17	18
(1370)	PER-04	705	0	1	4	8	12	15	16
(1371)	PER-05	705	0	2	7	15	21	27	29
(1372)	PER-06	705	0	2	5	10	14	18	19
(1373)	PER-07	705	0	1	2	4	6	8	8
(1374)	PER-12	705	0	5	15	31	43	57	60
(1375)	PROP-99	705	0	4	8	13	10	11	3
(1376)	PROP-06	705	0	0	1	3	4	5	5
(1377)	SUBTOTAL	705	0	19	54	109	144	186	188
(1378)	NET	705	696	727	699	675	675	674	721
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(1379)	BASE	706	0	(3)	(3)	(3)	(3)	(3)	(3)
	SAVINGS								
(1380)	SUBTOTAL	0	0	0	0	0	0	0	0
(1381)	NET	0	0	(3)	(3)	(3)	(3)	(3)	(3)
	TOTAL								
(1382)	BASE	0	24,846	25,600	27,541	29,415	31,858	34,277	36,968
	SAVINGS								
(1383)	SUBTOTAL	0	0	661	2,110	4,520	6,412	8,656	9,292
(1384)	NET	0	24,846	24,939	25,431	24,895	25,446	25,621	27,676
	ADMINISTRATION OF JUSTICE								
	FEDERAL LAW ENFORCEMENT ACTIVITIES								
(1385)	BASE	751	2,887	3,208	3,360	3,550	3,873	4,208	4,586
	SAVINGS								
(1386)	ASSET-06	751	0	7	23	49	71	96	105
(1387)	CONG-02	751	0	1	3	7	11	14	16
(1388)	CONG-03	751	0	1	2	4	5	7	8
(1389)	EXTRAP-03	751	0	0	1	2	3	4	5
(1390)	JUST-08	751	0	1	3	6	8	12	13
(1391)	JUST-09	751	0	1	4	10	16	22	25
(1392)	LAND-02	751	0	0	0	1	1	1	1
(1393)	PER-03	751	0	4	14	29	43	58	63
(1394)	PER-04	751	0	4	14	29	43	58	63
(1395)	PER-05	751	0	7	23	48	70	94	103
(1396)	PER-06	751	0	5	15	32	46	62	68
(1397)	PER-07	751	0	2	6	13	19	26	28
(1398)	PER-12	751	0	16	50	105	153	207	226
(1399)	PER-17	751	0	0	0	1	1	1	2
(1400)	PROP-99	751	0	12	26	42	34	39	10
(1401)	PRIV-07	751	0	2	6	13	17	23	23
(1402)	PROP-05	751	0	0	0	1	1	1	2
(1403)	PROP-06	751	0	1	4	9	13	17	19
(1404)	TREAS-08	751	0	0	1	2	5	7	9
(1405)	TREAS-09	751	0	2	6	12	18	25	28
(1406)	TREAS-10	751	0	10	30	64	94	127	139
(1407)	TREAS-11	751	0	2	6	13	20	27	31
(1408)	TREAS-12	751	0	0	0	0	0	0	0
(1409)	WAGE-03	751	0	1	3	7	11	15	16
(1410)	SUBTOTAL	751	0	80	241	499	701	945	1,001
(1411)	NET	751	2,887	3,128	3,119	3,051	3,172	3,263	3,585
	FEDERAL LITIGATIVE AND JUDICIAL ACTIVITIES								

(1412)	BASE	752	1,627	1,801	1,914	2,045	2,192	2,368	2,572
	SAVINGS								
(1413)	ASSET-06	752	0	1	5	10	14	19	21
(1414)	EXTRAP-03	752	0	0	0	1	1	1	2
(1415)	JUST-04	752	0	1	2	5	7	10	10
(1416)	JUST-06	752	0	1	4	8	11	15	16
(1417)	PER-03	752	0	1	3	6	9	12	13
(1418)	PER-04	752	0	1	3	6	9	12	13
(1419)	PER-05	752	0	2	5	10	15	20	21
(1420)	PER-06	752	0	1	3	6	9	12	13
(1421)	PER-07	752	0	0	1	2	3	5	5
(1422)	PER-12	752	0	3	10	22	32	43	46
(1423)	PROP-99	752	0	3	7	11	9	10	2
(1424)	PROP-06	752	0	0	1	2	2	3	3
(1425)	SUBTOTAL	752	0	15	44	90	121	161	166
(1426)	NET	752	1,627	1,786	1,870	1,955	2,071	2,207	2,406
	FEDERAL CORRECTIONAL ACTIVITIES								
(1427)	BASE	753	418	464	494	527	563	606	656
	SAVINGS								
(1428)	ASSET-06	753	0	1	4	8	11	14	16
(1429)	EXTRAP-03	753	0	0	0	1	1	1	2
(1430)	PER-03	753	0	1	2	5	7	9	10
(1431)	PER-04	753	0	1	2	5	7	9	10
(1432)	PER-05	753	0	1	4	8	11	15	16
(1433)	PER-06	753	0	1	2	5	7	9	10
(1434)	PER-07	753	0	0	1	2	3	4	5
(1435)	PER-12	753	0	2	7	16	23	30	33
(1436)	PROP-99	753	0	0	1	1	1	2	2
(1437)	PROP-06	753	0	0	1	2	2	3	3
(1438)	SUBTOTAL	753	0	8	24	51	73	98	106
(1439)	NET	753	418	456	470	476	490	508	550
	CRIMINAL JUSTICE ASSISTANCE								
(1440)	BASE	754	167	184	249	281	317	349	380
	SAVINGS								
(1441)	SUBTOTAL	0	0	0	0	0	0	0	0
(1442)	NET	0	167	184	249	281	317	349	380
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(1443)	BASE	755	0	(8)	(8)	(8)	(8)	(8)	(8)
	SAVINGS								
(1444)	JUST-01	755	0	35	87	158	172	215	172
(1445)	JUST-02	755	0	23	49	77	54	58	0
(1446)	JUST-07	755	0	2	6	12	18	25	28
(1447)	SUBTOTAL	755	0	60	141	248	245	297	200
(1448)	NET	755	0	(68)	(149)	(256)	(253)	(305)	(208)
	TOTAL								
(1449)	BASE	0	5,099	5,649	6,009	6,395	6,937	7,523	8,186
	SAVINGS								
(1450)	SUBTOTAL	0	0	162	450	887	1,139	1,501	1,472
(1451)	NET	0	5,099	5,487	5,559	5,508	5,798	6,022	6,714
	GENERAL GOVERNMENT								
	LEGISLATIVE FUNCTIONS								
(1452)	BASE	801	1,196	1,346	1,435	1,543	1,670	1,821	1,898
	SAVINGS								
(1453)	CONG-02	801	0	2	7	15	21	29	30
(1454)	PPAV-02	801	0	9	30	65	93	127	133
(1455)	SUBTOTAL	801	0	12	37	79	115	156	163
(1456)	NET	801	1,196	1,334	1,398	1,464	1,555	1,665	1,735
	EXECUTIVE DIRECTION AND MANAGEMENT								

(1457)	BASE	802	96	117	129	143	157	174	193
	SAVINGS								
(1458)	SUBTOTAL	0	0	0	0	0	0	0	0
(1459)	NET	0	96	117	129	143	157	174	193
	CENTRAL FISCAL OPERATIONS								
(1460)	BASE	803	3,045	3,493	3,457	3,657	4,008	4,454	4,850
	SAVINGS								
(1461)	ASSET-06	803	0	10	30	64	94	130	142
(1462)	ASSET-07	803	0	31	60	96	70	78	0
(1463)	ASSET-32	803	0	1	3	7	10	14	15
(1464)	EXTRAP-03	803	0	1	2	4	5	7	8
(1465)	PER-03	803	0	6	18	39	57	79	86
(1466)	PER-04	803	0	6	18	38	56	78	85
(1467)	PER-05	803	0	10	30	63	92	128	140
(1468)	PER-06	803	0	7	20	42	62	86	93
(1469)	PER-07	803	0	3	8	17	25	35	38
(1470)	PER-12	803	0	22	65	139	202	281	306
(1471)	PER-17	803	0	0	0	1	1	1	2
(1472)	PPAV-01	803	0	2	6	12	17	24	26
(1473)	PPAV-03	803	0	0	2	3	5	7	8
(1474)	PROP-99	803	0	17	35	58	48	56	18
(1475)	PPAV-05	803	0	1	2	5	8	11	12
(1476)	PPAV-06	803	0	2	5	11	17	23	25
(1477)	PROC-02	803	0	2	5	12	17	23	25
(1478)	PROC-04	803	0	8	23	48	71	98	107
(1479)	PROC-15	803	0	4	12	25	37	51	56
(1480)	PROC-19	803	0	0	0	1	1	1	2
(1481)	PROC-20	803	0	14	50	115	190	269	319
(1482)	PROC-21	803	0	5	14	29	42	59	64
(1483)	PROC-22	803	0	2	5	11	16	22	24
(1484)	PROP-05	803	0	0	1	1	2	3	3
(1485)	PROP-06	803	0	2	5	12	17	23	25
(1486)	TREAS-01	803	0	2	6	13	19	26	29
(1487)	TREAS-02	803	0	0	0	0	0	0	0
(1488)	TREAS-03	803	0	(1)	(4)	(8)	(12)	(17)	(18)
(1489)	TREAS-04	803	0	8	30	70	115	164	195
(1490)	TREAS-05	803	0	0	2	8	18	26	36
(1491)	TREAS-07	803	0	(32)	(96)	(202)	(296)	(411)	(447)
(1492)	TREAS-20	803	0	0	1	3	4	6	6
(1493)	TREAS-21	803	0	0	1	1	1	1	0
(1494)	TREAS-23	803	0	(3)	(5)	(7)	(3)	(2)	6
(1495)	TTM-01	803	0	2	5	18	14	20	22
(1496)	TTM-02	803	0	0	1	2	2	3	3
(1497)	USAF-12	803	0	0	1	1	2	3	3
(1498)	WAGE-03	803	0	11	32	68	99	137	150
(1499)	SUBTOTAL	803	0	142	396	811	1,125	1,547	1,612
(1500)	NET	803	3,045	3,351	3,061	2,846	2,883	2,907	3,238
	GENERAL PROPERTY AND RECORDS MANAGEMENT								
(1501)	BASE	804	200	629	616	729	851	875	971
	SAVINGS								
(1502)	ASSET-06	804	0	8	25	59	92	118	131
(1503)	CONG-03	804	0	3	10	24	37	48	53
(1504)	EXTRAP-03	804	0	0	1	2	3	4	5
(1505)	FEED-01	804	0	0	1	2	3	4	4
(1506)	FEED-04	804	0	1	2	6	9	12	13
(1507)	LAND-02	804	0	1	2	4	6	8	9
(1508)	LAND-03	804	0	20	59	140	219	281	312
(1509)	PER-03	804	0	5	15	37	57	73	81
(1510)	PER-04	804	0	5	15	34	53	69	76
(1511)	PER-05	804	0	8	24	57	89	114	127

(1512)	PER-06	804	0	6	16	39	61	78	86
(1513)	PER-07	804	0	2	7	16	25	32	35
(1514)	PER-12	804	0	18	54	128	199	256	284
(1515)	PROP-99	804	0	24	56	116	141	172	146
(1516)	PRIV-07	804	0	16	43	96	137	173	178
(1517)	PROP-01	804	0	6	17	41	84	82	91
(1518)	PROP-05	804	0	0	1	2	3	4	5
(1519)	PROP-06	804	0	2	5	11	17	22	24
(1520)	PROP-07	804	0	(5)	0	17	66	94	148
(1521)	SUBTOTAL	804	0	122	354	831	1,281	1,643	1,808
(1522)	NET	804	200	507	262	(102)	(430)	(768)	(837)
	CENTRAL PERSONNEL MANAGEMENT								
(1523)	BASE	805	115	153	160	173	199	217	234
	SAVINGS								
(1524)	ASSET-06	805	0	1	3	5	8	11	12
(1525)	PER-03	805	0	0	1	3	4	6	6
(1526)	PER-04	805	0	0	1	3	4	6	6
(1527)	PER-05	805	0	1	2	5	7	10	11
(1528)	PER-06	805	0	1	2	4	6	8	9
(1529)	PER-07	805	0	0	0	1	1	2	2
(1530)	PER-09	805	0	0	1	1	1	1	0
(1531)	PER-10	805	0	0	0	0	1	1	2
(1532)	PER-12	805	0	2	5	11	17	24	25
(1533)	PER-13	805	0	1	3	7	11	15	16
(1534)	PER-14	805	0	3	9	19	29	39	43
(1535)	PER-15	805	0	0	0	1	1	1	2
(1536)	PROP-99	805	0	2	4	7	5	6	0
(1537)	PROP-06	805	0	0	0	1	1	2	2
(1538)	SUBTOTAL	805	0	11	32	67	98	132	136
(1539)	NET	805	115	142	128	106	101	85	98
	OTHER GENERAL GOVERNMENT								
(1540)	BASE	806	768	795	859	938	1,028	1,136	1,263
	SAVINGS								
(1541)	USER-17	806	0	7	23	51	75	104	115
(1542)	SUBTOTAL	806	0	7	23	51	75	104	115
(1543)	NET	806	768	788	836	887	953	1,032	1,148
	DEDUCTIONS FOR OFFSETTING RECEIPTS								
(1544)	BASE	807	(636)	(185)	(185)	(185)	(185)	(185)	(185)
	SAVINGS								
(1545)	TREAS-05	807	0	2	3	5	4	4	0
(1546)	SUBTOTAL	807	0	2	3	5	4	4	0
(1547)	NET	807	(636)	(187)	(188)	(190)	(189)	(189)	(185)
	TOTAL								
(1548)	BASE	0	4,784	6,348	6,471	6,998	7,728	8,492	9,224
	SAVINGS								
(1549)	SUBTOTAL	0	0	296	846	1,846	2,697	3,585	3,833
(1550)	NET	0	4,784	6,052	5,625	5,152	5,031	4,907	5,391
	GENERAL PURPOSE FISCAL ASSISTANCE								
	GENERAL REVENUE SHARING								
(1551)	BASE	851	4,620	4,567	4,567	4,567	4,567	4,567	4,567
	SAVINGS								
(1552)	TREAS-14	851	0	0	0	0	0	0	0
(1553)	TREAS-16	851	0	0	0	1	1	1	1
(1554)	SUBTOTAL	851	0	0	0	1	1	1	1
(1555)	NET	851	4,620	4,567	4,567	4,566	4,566	4,566	4,566
	OTHER GENERAL PURPOSE FISCAL ASSISTANCE								
(1556)	BASE	852	1,834	2,137	2,163	2,214	2,314	2,472	2,705
	SAVINGS								

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(1557)          ASSET-99           852          0         18         37         57         40         43          0
(1558)          CONG-03            852          0          4         13         26         36         49         53
(1559)       SUBTOTAL              852          0         23         50         83         76         91         53
(1560)       NET                   852      1,834      2,114      2,113      2,131      2,238      2,381      2,052
      TOTAL
(1561)       BASE                    0      6,454      6,704      6,730      6,781      6,881      7,039      7,272
             SAVINGS
(1562)       SUBTOTAL                0          0         23         50         84         77         92         54
(1563)       NET                     0      6,454      6,681      6,680      6,697      6,804      6,947      7,218

    NET INTEREST
    ------------
      INTEREST ON PUBLIC DEBT
(1564)       BASE                  901    128,619    148,417    165,774    186,079    210,572    239,722    275,242
             SAVINGS
(1565)          ASSET-33           901          0          0          1          1          2          3          3
(1566)          OTHER              901          0      2,405      9,416     24,112     44,517     73,417    105,190
(1567)       SUBTOTAL                0          0      2,405      9,416     24,112     44,517     73,417    105,190
(1568)       NET                   901    128,619    146,012    156,358    161,967    166,055    166,305    170,052
      INTEREST RECEIVED BY TRUST FUNDS
(1569)       BASE                  902   (17,102)   (15,922)   (17,723)   (18,930)   (20,581)   (21,684)   (24,577)
             SAVINGS
(1570)       SUBTOTAL                0          0          0          0          0          0          0          0
(1571)       NET                     0   (17,102)   (15,922)   (17,723)   (18,930)   (20,581)   (21,684)   (24,577)
      OTHER INTEREST
(1572)       BASE                  908   (21,743)   (25,418)   (27,181)   (28,605)   (31,192)   (33,810)   (36,502)
             SAVINGS
(1573)       SUBTOTAL                0          0          0          0          0          0          0          0
(1574)       NET                     0   (21,743)   (25,418)   (27,181)   (28,605)   (31,192)   (33,810)   (36,502)
      TOTAL
(1575)       BASE                    0     89,774    107,077    120,870    138,544    158,799    184,228    214,163
             SAVINGS
(1576)       SUBTOTAL                0          0      2,405      9,416     24,112     44,517     73,417    105,190
(1577)       NET                     0     89,774    104,672    111,454    114,432    114,282    110,811    108,973

    UNDISTRIBUTED OFFSETTING RECEIPTS
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      EMPLOYER SHARE, EMPLOYEE RETIREMENT
(1578)       BASE                  951    (8,122)   (12,204)    (9,040)    (9,645)   (10,454)   (11,380)   (12,528)
             SAVINGS
(1579)       SUBTOTAL                0          0          0          0          0          0          0          0
(1580)       NET                     0    (8,122)   (12,204)    (9,040)    (9,645)   (10,454)   (11,380)   (12,528)
      RENTS AND ROYALTIES ON THE OCS
(1581)       BASE                  953   (10,491)   (12,071)   (13,037)   (13,971)   (15,032)   (16,076)   (17,212)
             SAVINGS
(1582)          LAND-01            953          0         14         46         99        142        190        203
(1583)       SUBTOTAL              953          0         14         46         99        142        190        203
(1584)       NET                   953   (10,491)   (12,085)   (13,083)   (14,070)   (15,174)   (16,266)   (17,415)
      FEDERAL SURPLUS PROPERTY DISPOSITION
(1585)       BASE                  954          0          0          0          0          0          0          0
             SAVINGS
(1586)          CONG-03            954          0        108        227        357        251        266          0
(1587)          INT-01             954          0         82        171        270        190        201          0
(1588)          PRIV-02            954          0      2,109      4,452      7,078      5,151      5,559        511
(1589)          PRIV-06            954          0         34         71        112         78         83          0
(1590)       SUBTOTAL              954          0      2,333      4,921      7,816      5,670      6,109        511
(1591)       NET                   954          0    (2,333)    (4,921)    (7,816)    (5,670)    (6,109)      (511)
      TOTAL
(1592)       BASE                    0   (18,613)   (24,275)   (22,077)   (23,616)   (25,486)   (27,456)   (29,740)
             SAVINGS
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(1557)	ASSET-99	852	0	18	37	57	40	43	0
(1558)	CONG-03	852	0	4	13	26	36	49	53
(1559)	SUBTOTAL	852	0	23	50	83	76	91	53
(1560)	NET	852	1,834	2,114	2,113	2,131	2,238	2,381	2,052
	TOTAL								
(1561)	BASE	0	6,454	6,704	6,730	6,781	6,881	7,039	7,272
	SAVINGS								
(1562)	SUBTOTAL	0	0	23	50	84	77	92	54
(1563)	NET	0	6,454	6,681	6,680	6,697	6,804	6,947	7,218
	NET INTEREST								
	INTEREST ON PUBLIC DEBT								
(1564)	BASE	901	128,619	148,417	165,774	186,079	210,572	239,722	275,242
	SAVINGS								
(1565)	ASSET-33	901	0	0	1	1	2	3	3
(1566)	OTHER	901	0	2,405	9,416	24,112	44,517	73,417	105,190
(1567)	SUBTOTAL	0	0	2,405	9,416	24,112	44,517	73,417	105,190
(1568)	NET	901	128,619	146,012	156,358	16[illegible],967	166,055	166,305	170,052
	INTEREST RECEIVED BY TRUST FUNDS								
(1569)	BASE	902	(17,102)	(15,922)	(17,723)	(18,930)	(20,581)	(21,684)	(24,577)
	SAVINGS								
(1570)	SUBTOTAL	0	0	0	0	0	0	0	0
(1571)	NET	0	(17,102)	(15,922)	(17,723)	(18,930)	(20,581)	(21,684)	(24,577)
	OTHER INTEREST								
(1572)	BASE	908	(21,743)	(25,418)	(27,181)	(28,605)	(31,192)	(33,810)	(36,502)
	SAVINGS								
(1573)	SUBTOTAL	0	0	0	0	0	0	0	0
(1574)	NET	0	(21,743)	(25,418)	(27,181)	(28,605)	(31,192)	(33,810)	(36,502)
	TOTAL								
(1575)	BASE	0	89,774	107,077	120,870	138,544	158,799	184,228	214,163
	SAVINGS								
(1576)	SUBTOTAL	0	0	2,405	9,416	24,112	44,517	73,417	105,190
(1577)	NET	0	89,774	104,672	111,454	114,432	114,282	110,811	108,973
	UNDISTRIBUTED OFFSETTING RECEIPTS								
	EMPLOYER SHARE, EMPLOYEE RETIREMENT								
(1578)	BASE	951	(8,122)	(12,204)	(9,040)	(9,645)	(10,454)	(11,380)	(12,528)
	SAVINGS								
(1579)	SUBTOTAL	0	0	0	0	0	0	0	0
(1580)	NET	0	(8,122)	(12,204)	(9,040)	(9,645)	(10,454)	(11,380)	(12,528)
	RENTS AND ROYALTIES ON THE OCS								
(1581)	BASE	953	(10,491)	(12,071)	(13,037)	(13,971)	(15,032)	(16,076)	(17,212)
	SAVINGS								
(1582)	LAND-01	953	0	14	46	99	142	190	203
(1583)	SUBTOTAL	953	0	14	46	99	142	190	203
(1584)	NET	953	(10,491)	(12,085)	(13,083)	(14,070)	(15,174)	(16,266)	(17,415)
	FEDERAL SURPLUS PROPERTY DISPOSITION								
(1585)	BASE	954	0	0	0	0	0	0	0
	SAVINGS								
(1586)	CONG-03	954	0	108	227	357	251	266	0
(1587)	INT-01	954	0	82	171	270	190	201	0
(1588)	PRIV-02	954	0	2,109	4,452	7,078	5,151	5,559	511
(1589)	PRIV-06	954	0	34	71	112	78	83	0
(1590)	SUBTOTAL	954	0	2,333	4,921	7,816	5,670	6,109	511
(1591)	NET	954	0	(2,333)	(4,921)	(7,816)	(5,670)	(6,109)	(511)
	TOTAL								
(1592)	BASE	0	(18,613)	(24,275)	(22,077)	(23,616)	(25,486)	(27,456)	(29,740)
	SAVINGS								

(1593)	SUBTOTAL	0	0	2,348	4,967	7,916	5,813	6,299	714
(1594)	NET	0	(18,613)	(26,623)	(27,044)	(31,532)	(31,299)	(33,755)	(30,454)
	TOTAL BUDGET OUTLAYS								
	BEFORE ECONOMIC IMPACT								
(1595)	BASE	0	795,968	864,842	939,903	1,039,364	1,156,536	1,297,469	1,454,385
(1596)	SAVINGS	0	0	22,620	66,079	139,148	194,590	276,558	306,557
(1597)	NET	0	795,968	842,222	873,824	900,216	961,946	1,020,911	1,147,828
(1598)	ECONOMIC IMPACT OF SAVINGS	0	51	(9,248)	(20,411)	(35,543)	(23,399)	(14,174)	41,178
	AFTER ECONOMIC IMPACT								
(1599)	BASE	0	795,968	864,842	939,903	1,039,364	1,156,536	1,297,469	1,454,385
(1600)	SAVINGS	0	51	13,372	45,668	103,605	171,191	262,384	347,735
(1601)	NET	0	795,917	851,470	894,235	935,759	985,345	1,035,085	1,106,650
	SURPLUS/(DEFICIT)								
	BEFORE ECONOMIC IMPACT								
(1602)	BASE	0	(195,404)	(197,963)	(185,055)	(213,528)	(240,587)	(276,030)	(329,983)
(1603)	SAVINGS	0	0	24,271	70,744	148,299	205,904	291,627	320,618
(1604)	NET	0	(195,404)	(173,692)	(114,311)	(65,229)	(34,683)	15,597	(9,365)
(1605)	ECONOMIC IMPACT OF SAVINGS	0	(163)	(18,086)	(21,426)	(54,028)	(56,836)	(65,484)	(20,949)
	AFTER ECONOMIC IMPACT								
(1606)	BASE	0	(195,404)	(197,963)	(185,055)	(213,528)	(240,587)	(276,030)	(329,983)
(1607)	SAVINGS	0	(163)	6,185	49,318	94,271	149,068	226,143	299,669
(1608)	NET	0	(195,567)	(191,778)	(135,737)	(119,257)	(91,519)	(49,887)	(30,314)

Chairman **Domenici**. We are delighted to hear from you and to have additions to the original report.

I might say to the members of the committee here, that Senator Nickles from Oklahoma asked if he could attend, and I told him he was welcome. Although he is sitting here and if he has some questions, he will not be taken that quick, but will have to wait until we finish ours. He understood that.

Senator **Nickles**. Thank you, Mr. Chairman.

Senator **Biden**. Mr. Chairman, before you proceed, could I ask one sort of humorous question?

Mr. Grace, do you know Ted Turner, by any chance?

Mr. **Grace**. I have never met him; I know who he is.

Senator **Biden**. You two should get together.

Mr. **Grace**. Thanks a lot.

Senator **Biden**. I think you would liven up any room, and the two of you together, I cannot imagine what would happen.

Mr. **Grace**. Thank you, Senator Biden.

Chairman **Domenici**. You were very presumptuous. You thought that was going to be funny. [Laughter.]

Senator **Biden**. You are absolutely right, Mr. Chairman. Actually, there is nothing funny about both of them being together; you are right.

Chairman **Domenici**. He didn't think so.

Mr. **Grace**. Well, I can't tell you.

Chairman **Domenici**. Well, you are judicious, at any rate.

Let me just ask two or three quick questions, and if we can, let's try to stay with 5 minutes, and I will put myself on 5 here.

First of all, let me say to you, I think your conclusion that we have no accounting system that yields anything we can really use is correct.

Second, I think it is quite obvious that to use outlays as a continuous yearly estimate of where we are and where we have been is absolutely foolhardy. In addition, it does yield what you have suggested—a tremendous propensity to say, "Well, we will not raise your pay, but we will change the pension system." When it comes to defense, it is much the same. We will cut O&M, which is one-for-one, but we will not scrutinize a weapon system, because this year, it has only got $10 million in there, and it may be $400 million 3 years out, if history's evidence of overruns is correct. So that it is not a just criticism of the report—of your report—when we talk about its immediate impact, because it basically is some very long-term policies that have got to be changed.

So I am fully aware of that, and I congratulate you for it. I am not sure that your year 2000, with a——

Mr. **Grace**. $1.966 trillion.

Chairman **Domenici**. I am not sure that anybody is that good at predicting, because you have economics that you do not know about; you have recessions that may occur.

Mr. **Grace**. Right. But, you do have those 962 social programs that you gentlemen have formularized, and you know that in 6 years the veterans benefits will be over $40 billion, up from $26 billion now, and you have medicare with a $200 billion trust fund shortfall in the 1990's. You know what I mean. You can take those social programs, and put them out and see where they are going to be with the demographics, et cetera.

I agree with you—but it is in that order of magnitude, somewhere between $1.2 and $2.3 trillion. That is the annual deficit.

Chairman DOMENICI. Yes. The fact that it could indeed be off more than you contend does not detract from its relevance.

Mr. GRACE. Yes.

PACKAGE MUST IMPACT ON PROBLEM

Chairman DOMENICI. Now, having said that, let me tell you what I perceive our problem this year to be, and part of the President's problem. We have to produce in the next couple of months a package that will have some impact on this problem that you have been asked to address—that is a real problem—- whether your solution is the right one or not, somebody will decide, but it is a problem. We obviously are not going to, and you are not recommending in this first year that we effect these major changes that you have analyzed as being necessary.

So I would ask you, since I think we have to do something substantive yet realistic, I clearly do not want our constituents to use your study to indicate that whatever we do is not enough. The Grace Commission recommended much more. I find that you told the Finance Committee that for the first 3 years, if we could get $59 billion in savings, that—you, personally, testifying; I assume you had your people with you——

Mr. GRACE. The same people, yes.

Chairman DOMENICI [continuing]. That that would probably be a pretty good realization of what you had found. And I want you to tell this Committee if you still feel that way. In other words, if we come up with a package of savings that is more than $59 billion—let's say $80 billion—over 3 years, including defense, half in defense and half elsewhere, would that be a significant savings for this year, all things considered?

Mr. GRACE. Yes, sir, Mr. Chairman, I think it would be super—don't you—what do you think?

Mr. BOLDUC. I think, Mr. Chairman, the $59.3 billion needs to be placed in proper context. We prepared that testimony and went through each one of the 2,478 recommendations to identify those recommendations that we felt had reasonable prospects for implementation over that 3-year period. So this was our call.

Chairman DOMENICI. All right.

Mr. GRACE. But I do feel that the answer to the Chairman's question is "Yes," don't you?

Mr. BOLDUC. That if you effectuate—you said $80 billion?

Chairman DOMENICI. Well, what if we did this. What if we have $40 billion in all the accounts of government, and $40 billion in defense over the next 3 years—we will not talk about revenue for this question; maybe there is revenue, but obviously, you do not like revenue raising, unless it is user fees, and we cannot get user fees, nonetheless—so I want to just ask you——

Mr. GRACE. That would be excluding, I hope, the office automation and the changes they can make and the cash accelerations, which the Government can do that. That is an operating decision.

They ought to move in on that. And I hope that would be excluding that, because that is nothing more than an operating decision.

Chairman **Domenici**. Well, Mr. Grace, I do not want you to pass on the precise little number. What I would like to do, so that we are not put in a position where, if we do something like that, it is said, "But the Grace Commission recommended $424 billion in savings," that we have also heard from you, so it is not just the Finance Committee, that clearly, somewhere around $60 billion was thought by you to be implementable this year, achievable——

Mr. **Grace**. This year, yes.

Do you say "Yes" to that?

Mr. **Bolduc**. Yes.

Mr. **Grace**. We both say "Yes."

Chairman **Domenici**. OK. That is all I needed.

I will yield to Senator Chiles.

MAJOR INFORMATION VOID EXISTS IN GOVERNMENT

Senator **Chiles**. I do not know whether you have touched on this question or not, Mr. Chairman, but there were estimates that the savings from the 396 recommendations would be about a third of your Commission estimates. However, to my mind, $98 billion is still a lot of money, given what we need to reduce this deficit. If you had to give us a list of just five recommendations on the management side—laying aside controversial policy changes like the repeal of Davis-Bacon or something like that, but true management proposals—what would be the five most important management recommendations that we could implement right away? ?

Mr. **Bolduc**. I think, Senator, I would like to go back for a moment and make sure there is not a misunderstanding between us and CBO and/or this committee; that the $97.9 billion that CBO came up with was not one-third or 20 percent of what we recommended As you know, they focused on only 3 years and excluded 1983 and 1984 savings, and nothing beyond 1987.

Senator **Chiles**. Right.

Mr. **Bolduc**. All right. If I were to respond to that question then, I would say that the five most significant things you could do to improve the management of the Federal Government, none of them—none of them—will yield you dollar savings. They are all related to strategy, structure, systems, and the people who make the system and the structure and the strategy work. And that, for example, refers to our information gap report, which identifies the Government's absence of the right information at the right time to make the right decision; that there is a major information void in Government.

The second major problem is a systems problem, hardware as well as software. You have——

Senator **Chiles**. Let me ask you on each one of them, on the information gap, from your experience in Government and your experience with this report, does that take legislation, or is that something that can be a management initiative by the administration?

BROOKS COMMITTEE MAKES HARDWARE PROCUREMENT SLOWER

Mr. BOLDUC. A combination of both. If you are dealing with the software side, you can do systems design and development without legislation. If you are talking about the procurement of hardware, every major hardware procurement in Government today must go through the Brooks Committee, and therefore, you are talking about—let me give you a number. In the private sector, from the time a manager says, "I want to procure a mainframe to improve the efficiency of my management process," it takes 6 months from the time the individual says, "I want it," until it is delivered. On the Government side, it is 6 years.

So, by the time the hardware arrives——

Senator CHILES. Are you saying that is the result of the Brooks Committee that it takes 6 years?

Mr. BOLDUC. I am saying in part, in part, yes, sir—in part.

Senator CHILES. I wish you would tell me. I am on the Government Procurement Commission. I am also on the Government Affairs Committee, which is the Senate side of what Mr. Brooks handles. And I would like to know what legislation requires the Government to take 6 years.

We have been hammering on the Social Security Administration because of the time that they are taking to do something with their computers, and I do not know of any legislation that is making them take that time.

I would like to know specifically what acts need to be amended, or what legislation——

Mr. BOLDUC. Let me ask you this, Senator. If I am a senior Government official today, and I want to procure—let me pick a number—$10 million worth of hardware from any one of the major vendors, I am being paid $69,000 a year to run an operation for the taxpayers as efficiently and as effectively as possible, can I go out and do that without checking with the Congress? That is, submit my request, jurisdiction and cost-benefit analysis to the Congress for approval?

Senator CHILES. Yes, sir.

Mr. BOLDUC. I can?

Senator CHILES. Yes, sir.

Mr. BOLDUC. I do not believe that is the way it works, Senator.

Mr. GRACE. No, I do not think so, Senator.

Mr. BOLDUC. That is not what we found in our study, and I can assure you, when I was assistant secretary—granted, it was nearly 10 years ago—and I tried to buy major computer upgrades, I had to wait 2½ years before we ever got the OK on the cost-benefit analysis that eventually resulted in simply upgrading some 370-168 IBM pieces of equipment.

I do not believe that is the way it works.

Senator CHILES. Well, I think again——

Mr. GRACE. We can get examples, Senator.

Senator CHILES. Yes, I want examples, because you might be talking about the fact that somebody has placed himself in a position where he says he needs that. But is that a law, or is it only that some management has not decided that they have got the guts to go do it? In other words, I do not know of any law that changes this system you are talking about.

BROOKS ACT REQUIRES COMMITTEE APPROVAL

Mr. **Bolduc**. I believe you will find that the Brooks bill itself, what is known as the Brooks Act, requires that mainframe procurements be submitted to the Government Ops Committee for review and analysis and approval, and they have thresholds. I do not know what it is today. As I recall, I think the number was $500,000 10 years ago. But I'm not sure. I can assure you, however, that when I was at Agriculture, we consolidated and centralized all of our financial management—payments, billings, collections—in New Orleans, along with five computer centers, and I could not move to first base until I came to the Hill and got permission to do so. And I was the senior manager in a department with 100,000 people, 15,000 field locations, and a $20 billion budget

Senator **Chiles**. Find that for me in the law, if you will. I think one of the provisions that we were talking about in what was the Brooks bill was a requirement that GSA sign off for the other agencies so that there would be some central procurement idea, so that everybody would not go off, and some would buy one computer and some would buy another. We tried to say GSA should be the focal point. None of the agencies liked that, because each one wanted to go and do their own thing.

But I do not think that it went through Congress to have to do that. I think we are talking about GSA.

Mr. **Bolduc**. Senator, I will give you specific examples of what we found.

Mr. **Grace**. Yes, we will.

Senator **Chiles**. Fine.

[The following was subsequently supplied for the record:]

FOUNDATION FOR
THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, INC.

April 12, 1984

The Honorable Lawton M. Chiles
Senate Committee on the Budget
634 Dirksen Building
Washington, D.C. 20510

Dear Senator Chiles:

I apologize for not responding earlier to your request for further information concerning Congressional involvement in the Federal computer acquisition process. Pressures of other business, including numerous requests for additional information, briefings, and testimony before the Congress regarding the President's Private Sector Survey (PPSS), precluded an earlier response.

As I indicated in my testimony before the Senate Budget Committee, my perceptions of the Federal computer acquisition process were based, in large part, upon experiences gained during my tenure as Deputy and later Assistant Secretary of Agriculture during the 1973-1977 period. These experiences were augmented by the results of PPSS reviews of automated data processing (ADP) and office automation (OA) operations.

In order to respond fully and accurately to your questions and concerns, I have researched the issue, reviewed the work of PPSS in this connection, and determined the following:

1. Prior to 1980, computer acquisition was controlled by a rigid regulatory framework which required extensive analyses and a multiplicity of approvals. Even those computer systems that were relatively low-cost were subject to these requirements as follows:

o Hardware - $50,000 annual lease or purchase
o Maintenance - $50,000 annual cost
o Software - $7,500 annual lease or $10,000 purchase
o Services - all

1511 K Street, N.W. • Suite 643 • Washington, D.C. 20005
(202) 628-6428

Agencies were requested to certify to the General Services Administration (GSA) compliance with certain regulations dealing with feasibility studies, funding, privacy, telecommunications planning, sharing of computers and software, and re-use of equipment. Furthermore, based on a request from the House Committee on Government Operations (chaired by Congressman Jack Brooks), GSA would provide to that Committee for its review an abstract of any agency request which met the following criteria:

- All procurements with expected system life costs over $500,000.
- Sole-source and specific make-and-model procurements.
- Interim procurements that included a central processing unit.
- Facility management procurements over $500,000.

If, as a result of this review, the Committee on Government Operations questioned certain aspects of the procurement, GSA was requested to place a hold on that procurement. If there was no hold placed by the Committee, and GSA was satisfied with the documentation, justification, specifications, and selection and evaluation criteria, GSA generally issued a delegation of procurement authority to the agency. In a few cases, GSA would choose to conduct the procurement themselves. GSA also conducted government-wide procurements for computer services and commonly used peripheral equipment.

In addition to the House Committee on Government Operations, other Congressional groups evidenced more than casual interest in data processing acquisitions during this period. The House Committee on Appropriations was mostly concerned with the monies being expended for data processing in terms of the relative beneficial use of the equipment. The Senate Committee on Governmental Affairs and the House Subcommittee on Government Information and Individual Rights also evidenced strong interest in ensuring that individual privacy was not invaded as a result of data processing applications which could not be safeguarded adequately. These groups, in one way or another, had a decisive effect on a number of acquisitions. For example, as of March 31, 1978, and largely due to these GSA procedures and Congressional involvement, 24 computer acquisitions were in a hold position at GSA, with four of these "holds" imposed by the Committee on Government Operations. Some of these requests for procurement and resulting "holds" dated back to 1976 and 1977. Three examples follow:

a. Air Force -- Phase IV System

The Base Level Data Automation Program (Phase IV) was a mission-essential competitive acquisition that was to replace Air Force base level computer systems. The project was initiated in the summer of 1976.

The Air Force employed standard management systems at all installations for base support functions. These functions included supply, aircraft and missile maintenance, civil engineering, military and civilian personnel and payroll, plus others.

The Brooks Act came into play in October 1979, when the House Government Operations Committee began hearings on the Phase IV Program. The General Accounting Office (GAO), as an extension of the Committee, alleged that the proposed Phase IV Program restricted competition, did not meet long term Air Force mission needs, would result in the acquisition of inefficient and out dated technology, and would require twice as many computers as needed. GAO recommended cancelling the acquisition. GSA suspended the original delegation of procurement authority.

Subsequently, the GSA and the Office of the Secretary of Defense (OSD) conducted detailed reviews of the proposed Phase IV Program. In March 1980, the Secretary of the Air Force redirected the Phase IV Program to resolve Congressional concerns. The delegation of procurement authority was reinstated by GSA. An amendment of the request for proposals was released to all offerors and modifications to the original vendor proposals were received by the Air Force in July 1980. There were no new bidders.

Only through concerted action was the Department of Defense (DOD) able to avert any greater delay. The contract award was made in January 1983, nearly seven years after the project was initiatied, and system implementation is proceeding.

b. Department of Energy -- Administrative Systems

The House Government Operations Committee put a freeze on the acquisition of administrative computers for DOE headquarters and Albuquerque operations office when the Department was established in 1976. The freeze was ostensibly to give the incoming Administration an opportunity -- though not initiated by them -- to review its needs. Thus, this action delayed acquisition of systems for more than a year (1976-1978).

c. Department of Transportation -- Federal Aviation Administration (FAA) -- Administrative Systems

In 1977, the House Government Operations Committee held up the acquisition of computers to replace obsolete RCA computers in the FAA regional offices because the FAA purportedly had not detailed its requirements sufficiently. FAA was asking for expansion capabiltiy to tie into as yet not developed central financial systems. The hold delayed the replacement for two years.

2. Since 1980, and with the enactment of the Paperwork Reduction Act, a number of changes have been made that have substantially improved the computer acquisition process. These include the following:

a. GSA has substantially raised the thresholds above which agencies must obtain GSA approval prior to initiating an acquisition -- from $25,000 to $2.5 million in some cases.

b. A substantially fewer number of acquisitions are sent to the House Government Operations Committee for review. In addition, since 1980, and contrary to what I thought, the Committee has not (based on the results of our limited reviews) delayed any acquisitions.

These actions have reduced unnecessary administrative overhead associated with the acquisition of computers and reduced the overall acquisition time. Our Task Force Report on Automated Data Processing/Office Automation properly recognizes these improvements on pages 29 and 30.

3. Even with these improvements, however, it still takes the government significantly longer than the private sector to acquire computers. As our Task Force Report noted, the private sector can conduct a major computer acquisition (from identification of requirements to implementation of equipment) in 18-22 months. The Federal Government takes 2-4 years for the same process.

4. There are sufficient differences between the public and private sectors that it may not be possible to reduce the Federal computer acquisition process to 18-22 months. For example:

a. The expenditure of public funds by Federal agencies is properly subject to additional Executive and Congressional reviews and approvals not typically found in the private sector. Proposals for the acquisition of major computer systems, and acquisition policies, often receive special attention (Social Security upgrade; Tax Administration System; lease vs. purchase decisions in Defense) by the media, public, and special interest groups.

b. Government agencies must comply with a number of policies, such as those dealing with competition and set asides for small and minority-owned businesses, that are not found in the private sector.

c. Government computer systems frequently involve public policy issues, such as the impact on personal privacy and individual liberties, that deserve special consideration.

5. On the other hand, there is still much that can be done to further improve the acquisition of Federal computers. Specific recommendations made in our Report include:

a. The central policy agencies should continue their efforts to eliminate unnecessary regulatory controls and provide agencies with the authority to acquire their computer systems in the most efficient manner possible.

b. Existing policies should be reexamined to ensure that they permit the acquisition of technology from the most efficient and effective sources.

c. Federal agencies should seek early consultation with the appropriate Executive and Congressional persons to ensure a full understanding and agreement of requirements and strategies.

6. Finally, and most importantly, as our Report notes, the oversight emphasis should be shifted from controlling the acquisition decisions to encouraging better strategic planning by Federal agencies.

a. The procurement process is the wrong place to assert control. By the time an agency is ready to acquire the system, a great deal of time and money has already been invested and the oversight bodies are generally limited to a "yes" or "no" decision. Without a substantial delay, little can be done at this point to modify the requirements determination or acquisition strategy.

b. A better tactic is to upgrade the strategic planning process in such a way that interested policy officials can focus on requirements and acquisition strategies at a much earlier point in the life cycle. Redirections, if necessary, can take place at this point in the process with little additional delay in the acquisition of the system.

7. I am pleased to note that the Office of Management and Budget (OMB) agrees with the Grace Commission and that they have underway a number of initiatives which are responsive to our recommendations. A few examples follow:

a. Development of Government-wide ADP planning processes to more closely integrate program requirements with technological requirements.

b. Review of all existing OMB Federal information policies and development of an up-to-date, comprehensive information policy circular.

The Congress is to be commended for recognizing, in concert with Federal agencies, the need for streamlining a very cumbersome and inefficient computer acquisition process. Though the process can be improved even further, it is considerably more efficient and responsive today than it was before 1980.

I very much appreciate your suggesting during our most recent testimony before the Senate Budget Committee, that I study the current Federal computer acquisition process further before concluding that the bottlenecks I experienced during my tenure with the Federal Government were still present today.

The statements I made during our hearing on February 28 were based largely -- as I indicated then -- on my experiences with the Federal Government during the 1973-1977 time frame. The one exception to this, and the one case on which I based additional statements during the hearing, was the Air Force Phase IV computer systems acquisition which was not consummated until January 1983 -- after nearly a seven-year delay. It was this most current case, when coupled with my prior experiences, which led me to erroneously conclude that the problem of delayed computer acquisitions through Congressional involvement was still very much present.

I thank you for the opportunity to place the issue of computer acquisition in proper perspective.

Sincerely,

J. P. Bolduc
Chief Operating Officer

Chairman **Domenici**. Senator, let me suggest that we have to go vote. I think we will be back. If you can give us about 3 or 4 minutes, there will be a number of Senators back. I may not make it.

Mr. **Grace**. You will not be back again?

Chairman **Domenici**. I do not know that I will, but we will have Senator Symms or Senator Kasten preside, and they will have maybe 20 or 30 minutes' more of questions, if you do not mind.

Mr. **Grace**. Sure.

[Short recess.]

[Whereupon, Senator Kasten assumed the chair.]

Senator **Kasten**. The committee will come to order.

We just finished the record vote on the Export Administration Act, and I am not sure which other Senators are going to be coming back at which time, but Senator Domenici asked that I chair the meeting and begin by asking some of the questions that I have had.

First of all, I want to congratulate you on the work that you have done, but more importantly, the work that you are doing, and what I believe is the work that you are going to do. We have gotten, I think, a start, a little bit of a rocky start, but I think that there are some real opportunities as a result of your study.

ENTIRE PROGRAM FUNDED BY PRIVATE SECTOR

I also understand, unlike some other Government programs, that in this one, the Government has certainly gotten what it paid for, because we did not have to worry at all about any costs going out.

Is it true that this was entirely funded by the private sector, and there were no Government funds used in any way, shape, or form?

Mr. **Grace**. Yes, Mr. Chairman, that is entirely true, except the White House had a White House assistant by the name of Janet Colson, who worked with us for liaison purposes, and the other White House assistant who worked with us was put on our Foundation payroll. So everything except the salary of Ms. Janet Colson, who was the liaison, was paid entirely by private enterprise, and it totaled up, in terms of cash donations of $3.4 million, and contributed services expenses of another $73 million, so about $76 million in total.

Senator **Kasten**. I think that is significant, and that is important.

Senator Biden has a time problem, and as a result, I would like at this point to recognize the Senator from Delaware.

Senator **Biden**. Thank you. I appreciate it very much.

Mr. Grace, I have a number of questions, but I am going to ask you only one, because I have seven U.S. Senators sitting in my office for a meeting that I called for the Judiciary Committee, and I am not there.

By the way, so the investigative reporters in the audience, when they find this out, will not make any connection between the fact—you do not know, but you all offered me a job back when I was a college student, and a very important one, to be a lifeguard on one of your liners—and I want to make it clear that, unlike the men at the front table, I am not on the payroll, so there is no violation of the law here.

RECOMMENDATION WOULD HAVE NO IMPACT ON VA BENEFITS

Mr. Grace, there are many questions that I have. The first one I would like to ask you about—or any of your associates—is the area of improved planning and resource allocation for VA hospitals.

Now, that translates to me, as I read it, into what is really a Grace Commission recommendation that would have the longrun effect of abolishing the VA hospital system.

Is my reading of that incorrect?

Mr. GRACE. I would say it is incorrect, Senator, and I would ask Mr. Bolduc to clarify, exactly. As you know, it is based on the fact that a nursing home bed in the VA costs four times as much—$64,000 per bed, versus $16,000—and in the hospital area, comparing it to Duke Hospital, the new hospital built by Duke, the VA is about twice as much. So it is basically to get the thing comparable to what the private sector people are doing, throughout the whole VA. And so often, our recommendations have been misconstrued as being to change the benefits that people are gettting from these agencies or departments, and that is not true at all. What we want is tbe delivery services of those benefits to be made efficient, whether it comes through privatization—which could easily be done; we could contract people to do these services at a more efficient and a better way for the recipient.

But you go ahead, J. P.

Mr. BOLDUC. First of all, Senator, none of what we are recommending would have an effect or an impact on the program benefits, least of all, the VA itself.

What we are saying is that the Government has limited resources in order to provide those services. Through the process of effective resource management and looking at what currently exists within the Federal Government and DOD, and determining the extent to which there can be effective sharing of resources—everything from personnel services to facilities to structures to computers to medical technology, et cetera significant savings can be realized. So on one hand, it is resource allocation in terms of sharing; on the other hand, it is the effective use of the outside sector wherever services or products can be provided at a more reasonable price and as effectively as it can be done in-house.

GET SERVICES THE BEST, MOST ECONOMICAL, AND MOST EFFICIENT WAY

Mr. GRACE. Now, may I just add to that, Senator—excuse me—one of the problems between government and business is that government does many, many things—timberland management, pastureland management, you name it, hospitals—many, many things that business does. But there are never any cost comparisons made to see whether the Government's costs are comparable in the first place, with the 332 incompatible accounting systems, you cannot even allocate overhead.

So what we are saying is do it better and more economically and more efficiently. That is all we say.

Senator BIDEN. Well, it seems that your associate to your left has been in Washington before, and he has been around. And the answer that I got sounded to me a little like I get from the State Department when I ask them a question. You talked about resource allocation. Now, the bottom line of all that is, if the private sector can do it more cheaply, the private sector should do it. That is what you are saying, isn't it?

Mr. **Bolduc**. Correct.

Senator **Biden**. Now, the bottom line of that would be, having been around Washington and understanding what that means, that means that VA hospitals, by cost comparisons and by bed occupancy, that are in existence now would probably, under that criterion, there would be VA hospitals being shutdown—would it not? I mean, let's cut all the gobbledygook out.

Mr. **Bolduc**. Why?

Senator **Biden**. Well, the fact of the matter is that if you argue that there is in fact a cheaper way to do it——

Mr. **Bolduc**. Cheaper and better.

Senator **Biden** [continuing]. OK, cheaper and better—with the cheaper and better way, isn't the end result going to be fewer VA hospitals? And let's assume I argue that there is better service.

Mr. **Bolduc**. If you want to conclude that the number of hospitals determines the service that is being provided, I think that happens to be an erroneous conclusion.

I think if your question is, will there be an effect and an impact in terms of the number of beds available to service veterans, the answer to that is the number of beds are not going to be affected.

Senator **Biden**. That is not my question. I am not making a value judgment. I want to know what this means. The end result, as I read what you have written and what you are saying, is that you conclude that service will be as good or better, at a cheaper cost, but the end result will be that there will be fewer VA hospitals as we know them.

Is that not correct?

Mr. **Bolduc**. There may or may not be.

Senator **Biden**. There may or may not be?

Mr. **Bolduc**. Wait a minute, wait a minute. You could have one hospital with three beds, and you could have another hospital with 3,000 beds.

Senator **Biden**. I understand that.

Mr. **Bolduc**. All right. And you may have started with two hospitals. But it may be that in the resource allocation process, that you ought to reduce the size of this hospital here, because the demand is not there.

SOME VA HOSPITALS WOULD PROBABLY CLOSE

Senator **Biden**. I understand that, I understand that, but isn't one of the results going to be—I am not saying it is right or wrong—isn't one of the results going to be that certain VA hospitals in parts of the country are likely to be reduced?

Mr. **Bolduc**. It may very well be, sure.

Mr. **Grace**. I say yes.

Senator **Biden**. Let me put it this way: Can it be avoided?

Mr. **Bolduc**. It possibly can, but I am not sure what you would gain by avoiding it.

Senator **Biden**. Look, let's talk like the hardnosed businessmen you all are.

Mr. Bolduc. Well, ask me a hard question.

Senator Biden. A hard question is—under your proposals, based on your estimates of savings that are available, will all the VA hospitals remain open with the number of beds they now have?

Mr. Bolduc. The answer is probably No.

Senator Biden. That is what I thought. Thanks for the straight answer. That is the first question.

Mr. Bolduc. All right. Thanks for the question.

$100 BILLION IN SAVINGS CAN BE IMPLEMENTED IMMEDIATELY

Senator Biden. Now, the second question I have for you, is of all your recommended savings here, how many of them could be implemented immediately by the President of the United States without any congressional action?

Mr. Grace. In dollar value or number of savings?

Senator Biden. Both.

Mr. Grace. Both? Twenty-seven percent of the dollar value. I do not know the number of savings—do you, J. P.?

Mr. Bolduc. It is about 25 to 27 percent.

Senator Biden. Twenty-five percent of the $400-some billion.

Mr. Grace. Twenty-seven percent of the $424.4 million.

Senator Biden. So, something in excess of $100 billion, the President with the stroke of a pen could implement.

Mr. Bolduc. Now, let's wait a minute. Let's not jump to a quick conclusion. We have numerous instances throughout the 47 reports we have released where the executive branch of Government is, in fact, given authority to act, but the Congress has interfered through the appropriation process and said, "You shall not."

Senator Biden. I understand.

Mr. Bolduc. But when you ask me the question, "Can he?"—legally, yes. Will he? I do not know.

Mr. Grace. Pragmatically, I would call it 15 percent.

When John Chad, whom I do not know, eliminated the necessity of registration statements every time the bond market changed and put in registration, self-registration, and also proxy where you have to own $5,000 before you can put a lot of malarky into a proxy statement, he was able to reduce the staff of the SEC by 125. However, when he came to do that, he was called up on the Hill and told, "No, no."

Therefore, pragmatically, you would know much more than I would, Senator, as a former lifeguard, what pragmatically they can do. I do not know. I am not a Washington hand.

Senator Biden. Well, I know we are drowning, and I know the guy who owns the swimming pool, if he can affect the outcome of how many people can swim in the pool at one time, can impact upon the number of people who are likely to drown if he tests them before they go in to see whether or not they can swim. And what I want to find out here is whether or not the President is willing to test to see what can swim.

Now, you are telling me he can submit, he can make changes, that will account for approximately $100 billion. We can stop him. But unless we stop them, they will take effect. Is that what you are saying?

Mr. **Grace**. That is right.

Senator **Biden**. OK, good.

CASH MANAGEMENT PROGRAM WILL SAVE $4.7 BILLION

Mr. **Bolduc**. I will also tell you, Senator, that they have already implemented a series of recommendations, and let me give you a few. They have implemented a cash management program that will save $4.7 billion in interest alone in fiscal year 1985. They have agreed and are moving out to eliminate 40,000 positions between GS-11 and GS-15, to save $1.8 billion. They are closing down 229 printing plants, to save $53 million.

Senator **Biden**. I think it is great. Don't be so defensive. Are you running for office?

Mr. **Bolduc**. Yes.

Senator **Biden**. You are?

Mr. **Bolduc**. I am running for the Senate seat in Delaware.

Senator **Biden**. I hope so, because I want to tell you, I'm going to whip you. I'm going to teach you a lesson. [Laughter.]

Thank you, Mr. Chairman.

Mr. **Grace**. Good to see you, Senator.

Senator **Biden**. Good to see you, Mr. Grace.

Keep him on your payroll. Everybody needs a wiseguy working for him.

Senator **Kasten**. As you are drinking that iced tea, you will find out why, if we drink iced tea, we drink it in either a paper cup or a cup, because even though it is after 5 o'clock, most people would think that that might not be iced tea right at this minute. [Laughter.]

I want to just follow up on what Senator Biden said for just about 2 or 3 more minutes, because I think it is kind of the key to the problem.

You have got your four or five pages, "Why business can advise government," and I wish this could be printed in every newspaper in the country and that people could get that information, because I think it is the most important information that you have got.

Mr. **Grace**. Yes, it is.

GETTING TO THE SOLUTION

Senator **Kasten**. You talk about a number of these different comparisons—inventory management, private sector inventory replenishment techniques would save the Government $4.5 billion over 3 years. Government R&D, bureaucracy of R&D funding requires that Oak Ridge researchers consult 114 DOE offices for funding approval. It costs the Army on payroll $4.20 to process a payroll check versus $1 average in the private sector. And I think, relating' directly to what Senator Biden was talking about in terms of the veterans' programs, and building maintenance, not having to do with veterans, but it is related—on building maintenance, the General Services Administration employs 17 times as many people and spends almost 14 times as much on total management costs as a comparable private sector firm.

The point you are trying to make, it seems to me, is that we can serve the veterans better, we can keep our buildings maintained—we are not trying to close buildings, we are not trying to not serve veterans; what we are trying to do is to do it in a more efficient way.

The frustration is how do we—how do I, as a U.S. Senator—what can we do on this committee. Let's just, for example, take one—to work out a way that the Army gets its way of processing a check closer to the $1 average in the private sector. There are so many different people associated with that process. How can we get from—I understand where you are going—but how can we get from the facts to the solution? Is it simply political pressure that stops these things from being done?

Mr. GRACE. Well, my answer to that, Mr. Chairman, is that it is unfortunate that it took us about 2 years to do this job. We had no idea when we started how long it would take. We had no idea how many people we needed. We had no idea how many hours and days they would give us. But it did take until January 16 or whatever, this year, to come out with it.

Now, we come out with it in an election year. On the other hand, you can look at it from the other viewpoint. We get this all out before the public and let them decide whether they want to see their taxes wasted in this manner, and maybe there will be a message sent to Washington that this is not going to go any more.

Now, if that message is sent, these reports—and there are 47 reports, a more than 20,000 pages—they are ageless, Senator. They can be pulled off the shelf in 1985 and 1986, and they are just as good then as they are now. If you look at that other page, Mr. Chairman, where you see what a dollar—this to me is one of the most important issues we are talking about—if you and I were arguing about a dollar, and I wanted to leave it in the spending stream, and you wanted to take it out, in 12 years, that is $33, if I won and you did not take it out, and in 17 years, it is $71.

So we are talking about $7.1 trillion over the next 17 years, which is not that far off.

Now, it is so much money that I feel that if we get the message out there through the media—there are 15,000 newspapers, radio stations, magazines, TV stations. We are trying to hit as many of them as we can, not on a partisan basis, but just to get this kind of thing out so the public understands it, and then we will demand not more and more handouts, but more and more efficiency. And I do not know whether that will solve it or not. If that does not, then we are all dead, including my children—you are a very young man; I have 9 children and 12 grandchildren, and I am really fighting for them. And I say their future is absolutely horrible if it is not solved one way or another. It is very difficult, the whole problem.

COMPUTER SAVINGS ONE OF TOP ITEMS ON AGENDA

Senator KASTEN. One last question. The previous panel identified the computer savings, the computer in Government savings, as toward the top of their agenda items, toward the top of the group of things that you suggested.

Mr. GRACE. It is.

Senator KASTEN. Somebody asked them, "What one do you think we can go forward on almost immediately?" and they suggested that.

Do I understand that we can buy the new computers—in other words, in that savings that you have got, have you taken into consideration the fact——

Mr. GRACE. Yes.

Senator KASTEN. So that is a net savings, after we buy the new electronic——

Mr. BOLDUC. It is $10.6 billion that has been set aside from the savings for purposes of implementation cost.

Mr. GRACE. It is $22 billion gross and $1 billion net after $11 billion set-aside for the front-end costs.

Senator KASTEN. And that $22 billion savings is based on 1 year, 5 years, 3 years, or what?

Mr. GRACE. Three.

Senator KASTEN. Three years?

Mr. GRACE. Yes, sir.

Senator KASTEN. So we spend $11 billion in the first year, and we get $22 billion back over 3 years.

Mr. GRACE. Well, you spend $11 billion as soon as you get through the bureaucracy of the Brooks committee, regardless of what Senator Chiles said—and we are going to get back to him in writing. Basically—and I know Senator Chiles is a very distinguished, intelligent man, and I have great respect for him—but on this issue, he is not properly informed, and we are going to give him in detail what that is.

Senator KASTEN. Well, we are going to wrap up this hearing. First of all, Senator Grassley has three specific questions that he will submit to you for the record, and you will be back to us with responses in writing.

I want to thank you for being here this afternoon. I apologize in behalf of the committee. This crazy scheduling is one of the reasons why we do not get things done here quite as efficiently as we would like to. But we thank you for being here and for your contributions, and we look forward to working with you.

Mr. GRACE. And we thank you for your hospitality and your very kind attention.

Senator KASTEN. The hearing is adjourned.

[Whereupon, at 5:30 p.m., the committee was adjourned.]

WRITTEN QUESTIONS FROM SENATOR GRASSLEY TO MR. GRACE AND THE RESPONSES

FOUNDATION FOR
THE PRESIDENT'S PRIVATE SECTOR SURVEY ON COST CONTROL, INC.

April 4, 1984

The Honorable Charles E. Grassley
c/o W. Thomas Foxwell
U. S. Senate
Committee on the Budget
Room 820, Hart Building
Washington, D.C. 20510

Dear Senator Grassley:

We very much appreciated the opportunity to appear before the Senate Budget Committee on February 28, 1984 and found the discussion informative and encouraging. We were particularly pleased with the genuine interest displayed by members of the Committee with respect to the recommendations of the President's Private Sector Survey on Cost Control (PPSS) and how they could be implemented.

We were prepared to discuss our recommendations at greater length than the half hour or so we were given to respond to the CBO-GAO critique of our recommendations and savings estimates. Because of the short time we were allotted, we were unable to present our findings in as thorough a manner as we would have liked. I therefore appreciate your continuing interest and am glad to respond to the questions you sent to me and to further amplify the work and recommendations of PPSS. Specific responses to each of your three questions follow.

Your first question:

> "What recommendations in your report address either institutional restructuring or changes in the system of bureaucratic rewards so that we won't need a Grace Commission II, and a Grace Commission III, and so on, in the future?"

As we analyzed the operations of the Executive Branch, we became aware that many previous recommendations for improving Federal operations (made both by Government agencies and by independent reviewers) had not been implemented. Some recommendations had been made dozens of times over several decades with no action taken to resolve the problems analyzed. For example, recommendations to consolidate military bases have been made over the past twenty years. We became particularly aware that if our recommendations were not to join the thousands of previous analyses gathering dust on the shelves, we had to address the fundamental way government functions and not just offer "bandaid" solutions to the symptoms of the underlying deficiencies. We, too, were concerned that if these fundamental issues were not addressed, there would be future study commissions while the immediate need to address current problems remained unresolved.

Therefore, we recommended fundamental changes in how the Executive Branch operates. Many of these changes are included in our Task Force reports on Federal Management Systems, Financial Asset Management, Information Gap, Automated Data Processing/Office Automation, and Congressional Encroachment. Basically, however, all 2,478 PPSS recommendations aim at developing and implementing long-term solutions rather than addressing immediate, short-term problems.

I would like to focus on the major structural and system reforms which we feel are fundamental to preventing future waste and inefficiency. A major obstacle to improving the efficiency and effectiveness of the Government is the Federal structure itself.

No single department or agency is responsible for overall Executive Branch administrative direction and policy setting. Responsibilities for property, financial management, human resources, and ADP management are distributed among many agencies. This condition results from a long history of uncoordinated and often conflicting legislative and administrative actions. Major structural defects include:

-- lack of centralized financial and administrative management;

-- lack of government-wide management information; and

-- lack of continuity in key management positions.

There is a need for a top level office to provide much greater emphasis on management improvement. We recommended the establishment of an Office of Federal Management (OFM) in the Executive Office of the President, responsible for policies and programs throughout the Government to improve financial management information systems, to coordinate reporting policies and procedures, to assure effective management of human resources, and to improve planning and budgeting.

The mandate of this office would be to promote a business-like approach that will create an organization capable of effectively directing and coordinating Executive Branch management activities. The proposed Office of Federal Management would consolidate the current fragmented and overlapping management responsibilities into an organization with clearly assigned lines of authority and specific responsibilities.

OFM would include the budget functions of the Office of Management and Budget (OMB) and serve as the President's management staff for implementing major improvements in processes and systems, communications, and information flow. It would establish a unit responsible for systematically identifying and implementing management improvements on an ongoing basis, an essential function for sustaining such improvements and ensuring timely implementation of PPSS and other recommendations.

In addition, since no central Government organization is responsible for directing and coordinating the Federal Government's accounting and financial reporting activities, there has been inadequate agency and government-wide financial management, accounting, and reporting. There has been inconsistent application of accounting procedures among agencies and a lack of reliable and useful financial data. Thus, the financial management function of OFM would include the accounting and reporting activities of the Department of Treasury, OMB, and the General Services Administration (for government-wide property reporting).

Further, in virtually all administrative areas -- e.g., payroll, personnel, accounting, and asset management -- departments and agencies have developed independent information systems and related procedures, taking little advantage of the experience or work done by others. Independent and unique methods of operation are inefficient, often counterproductive, and very costly.

Because of the above deficiencies, there is frequently no common or compatible data across departments and agencies, leaving those at senior levels of Government with no practical means of obtaining summarized management and financial information. It has been exceedingly difficult to obtain timely financial and management data from existing automated and manual systems (e.g., collection of amounts due the Government, location and utilization of real and personal property, inventories of supplies and materiel, and even the data processing systems currently in use).

To deal with these problems, OFM would be charged to develop common government-wide ADP systems and related procedures for use in such administrative areas as payroll, accounts receivable, retirement and pensions, general accounting and accounts payable, and fixed asset accounting. Since there are currently more than 300 payroll systems in use in the Federal Government, PPSS recommended that implementing a common payroll system receive the highest priority. Benefits of OFM activity in this area would include government-wide information with which to manage more effectively.

OFM would also be responsible for instituting a Federal planning and budgeting process for capital expenditures, and strengthening the budget process to improve its usefulness for government-wide management (e.g., revising appropriation classifications to better match management needs, and integrating the financial management and budget processes). The cumulative effect of these recommendations would be to make possible more rigorous and systematic evaluations of Federal programs by providing data for more effective program management.

PPSS also concluded that the current annual budget process hinders agency managers from planning for and analyzing programs beyond the current fiscal year. PPSS therefore recommended that OFM further study the feasibility of adopting a biennial budget process to emphasize long-term management needs.

PPSS also recommended that key OFM officials be appointed on a long-term basis and that they have demonstrated strong management capabilities. PPSS recommended a new "contractual" approach for second-tier OFM officials in the fields of financial management, human resources, administration, budget and planning, and management improvement that would provide the security and tenure necessary to carry out long-term improvements. OFM should also have a role in assisting departments and agencies in selecting key administrative officials, such as assistant secretaries for management, comptrollers, and the like, based on their technical and managerial qualifications to work toward a more cohesive and integrated management team across Government.

As the above discussion illustrates, PPSS is recommending a fundamental change in the Federal management process. The basic problems need to be eliminated so that the symptoms do not recur in future years.

A similar concern with long-range solutions and management structure was the basis for our recommendations regarding the Department of Defense (DOD), particularly the Office of the Secretary of Defense (OSD). We proposed reorganizing OSD to provide a long-range structure capable of addressing old problems and new, and responding quickly to changing situations.

DOD does not perform as well as it might, and there are some structural problems which contribute. Further, more good people will not make a significant difference unless the organization is designed to operate efficiently and economically.

In a number of DOD units, duplicated or overlapping functions have been consolidated into single organizations. We found that OSD has taken on the role of managing several consolidated functional groups, such as the Defense Logistics Agency (DLA), the Defense Mapping Agency (DMA), the Defense Communications Agency (DCA), and others. In some cases, this has resulted in an inefficient organizational structure. For example:

- DLA, the major procurement and supply agency for the consumables used by the services, employs nearly 50,000 people and spends $20 billion per year.

  This consolidated line organization reports to the Assistant Secretary of Defense who has the staff responsibility for Manpower, Reserve Affairs, and Logistics. Though logistics has been added to this Assistant Secretary's title, this does not alter the fact that the main mission of DLA has little to do with the balance of the responsibilities of the Assistant Secretary.

- DMA, also considered to be a successful consolidation, employs 9,000 people and makes maps to support military operations throughout the world. This line organization works in direct support of the Commands under the Chairman of the Joint Chiefs of Staff (JCS), but reports to the Under Secretary of Defense for Research and Engineering, a staff function.

- DCA, the organization through which the Chairman of the JCS communicates with the Commands, also reports to the Under Secretary of Defense for Research and Engineering.

This mixture of line and staff functions in an organization creates many problems in setting priorities. Typically, in the private sector, such "two-hatted" managers give their attention to their line units, so the staff work and long-term planning suffer. Experience has shown that operating line units should not report to staff management.

These hybrid organizations are among the many causes of another problem throughout DOD: overly large spans of control. We found many managers with anywhere from 15 to 30 people or organizations reporting to them. Common private sector practice normally limits spans of control to six or eight, perhaps ten in unusual situations. A span of 20 or more simply cannot work.

Another factor encouraging these enormous spans of control is the civilian personnel system. Under this system, supervisory positions are often evaluated on the basis of spans of control, i.e., the number and the highest level of personnel reporting to that supervisory level.

Our survey also indicated that the DOD organization contained a number of units which duplicated the structure and function of other units. Many organizations perform similar functions in OSD, in each of the staffs supporting the Service Secretaries, and again in the staffs reporting to the Service Chiefs.

The following are some examples of duplication of effort:

-- There are large Manpower and Reserve Affairs organizations in OSD reporting to the Secretary of Defense; again in the Service Secretariats, reporting to the Service Secretaries; and then again in the services, reporting to the Chiefs.

-- Throughout the acquisition system in DOD, there are major overlaps of functions in OSD and the services which make the process of acquiring major weapons systems both more costly and more time consuming than necessary.

-- There are people performing legislative and public affairs functions in OSD, the Service Secretariats, and in the staffs reporting to the Service Chiefs. The organizations in the services tend to focus their attention on the specific needs, programs, or activities of their particular service. We found that in many cases the individual services maintained more extensive lobbying or public relations efforts than OSD. While this may be good for the particular service in the short-term, activities which tend to focus on individual services create inter-service issues or conflicts which are often counter-productive to the accomplishment of DOD's mission.

To address these problems, we proposed the following changes in the overall organization of DOD:

-- The creation of a Defense Executive Office to include the Secretary of Defense, the Service Secretaries, the Chairman of the JCS, and the Deputy Secretary of Defense.

-- The designation of an Under Secretary of Defense for Acquisition (a new position) separate from the Research and Engineering function, which would continue to be under the direction of the Under Secretary for Research and Engineering.

-- That the DLA report to the proposed Under Secretary of Defense for Acquisition.

-- The elimination of the staffs reporting to the Service Secretaries and the transfer of any functions which cannot be eliminated to OSD or to the staff of the appropriate Service Chief.

These recommended changes in organization structure would significantly improve DOD's operation by:

- -- providing more and broader leadership at the top of the organization;
- -- providing an organizational framework which will work to enhance, rather than inhibit, common decisions and actions;
- -- reducing staff, saving money, and improving efficiency;
- -- separating line and staff functions for maximum effectiveness;
- -- reducing spans of control to reasonable operating levels; and
- -- recognizing the clearcut distinction between the acquisition function and the research and engineering function.

Until the Federal Government (and DOD) can develop a climate in which self-analysis and constructive criticism are accepted and encouraged, it must rely on outside groups for this analysis and criticism. Recommendations from outsiders will always have two handicaps: they will be based on less detailed knowledge of the total situation, and they will never achieve the degree of ownership which internal recommendations achieve.

Regarding the second part of your question, "Changes in the system of bureaucratic rewards," this area is addressed in answer to your third question further below.

Your second question:

> "Did your commission attempt to get a handle on the relation between input, or dollars, spent by the Federal Government versus output, or goods and services, delivered by the Federal Government? In other words, does your commission offer any recommendations for how we get more output for less input?"

This was a major part of our mandate from President Reagan. Again, almost all 2,478 of our recommendations address the issue of how to get more output for less input. However, one of the major obstacles we faced was accumulating the information necessary to determine how efficiently and effectively the Government is run. The purpose of PPSS was to search out waste and inefficiency in the Executive Branch of the Government and to recommend ways in which modern business practices could be put to work to make Government more efficient and effective. It became immediately apparent that the information essential to this purpose was often not available or was out of date, incomplete, or inaccurate.

We found that Federal managers do not have complete operating data available to them, as compared to the private sector where such data is immediately and easily available to executives. One of the major obstacles to improving the efficiency of Government is this lack of information.

Enormous quantities of numbers and other data are generated by the Government, but little of it has been processed and organized for management purposes. For example, within the Air Force Logistics Command, one system generates 500,000 pounds of paper each month, or six million pounds per year, but PPSS found these data of limited value and recommended savings in this one instance of $581 million over three years.

The lack of information, the "information gap," in the Federal Government is widespread. There are two basic aspects to the problem. The first is a major leadership void in the management of information. There is no focal point to direct, coordinate, and standardize effective information systems in the individual agencies. Further, there is no central authority to integrate individual information systems into a coherent, management information system necessary to support decision-making in the Executive Office of the President (EOP).

The information gap in the Federal Government is so serious that nobody knows, for example:

-- what cash balances are, where they are located, and what total Federal funds have been committed to individual states or localities;

-- where real and personal property is located and what it is being used for; and

-- how much money is owed to the Government by any one individual or corporation and how long it has been outstanding (in fact, definitions of common lending terms such as delinquencies and defaults vary from agency-to-agency, thus precluding meaningful government-wide analysis).

Information gaps of this magnitude are not tolerated in the private sector; any company which did not solve the problem quickly would be out of business. Yet, these gaps persist and grow in the Federal Government.

To address these problems, PPSS has recommended restructuring the leadership of information management by:

-- creating a Presidential Task Force which would be responsible for setting the goals and commitments of the Executive Branch to overcome information deficiencies;

- designating an information coordinator in major departments and agencies to facilitate data collection, information processing, and report dissemination; and

- establishing an Information Management Office in the proposed Office of Federal Management to implement the goals established by the Presidential Task Force and the EOP.

Part of this information gap results from the lack of modern computer systems in the Federal Government, by far the world's largest user of computer and automated office equipment. PPSS identified over 17,000 computers in the Government and a work force of more than 250,000 people who operate them. Operating costs of government-wide automated data processing (ADP), including teleprocessing and office automation (OA), are at least $12 billion annually. PPSS found that, in general, the Government's ADP efforts were handicapped by:

- obsolete equipment -- over 50% of Federal ADP hardware is obsolete;

- incompatible systems -- the majority of Federal ADP systems are incapable of communicating with other systems government-wide; and

- high turnover of qualified ADP personnel.

As a result, Federal ADP systems are generally not responsive to user needs and inhibit improvements in operating efficiency.

Attaining the goal of increased efficiency in the Federal Government depends on substantial new investment in automated management systems. The Federal Government is not realizing the full productivity and cost savings potential of automated data processing/office automation, despite the ready availability and proven value of state-of-the-art computer systems.

This is a major symptom of the short-term outlook in Government which inhibits long-term benefits -- long-term benefits are often overlooked when initial investments do not produce immediate or near-term results. In many cases, fundamental problems remain while the symptoms are "cured."

To improve Federal operations will in some instances, such as automated data processing, require up-front costs. The returns on this investment may not be realized for several years although it is substantial (e.g., $22.6 billion for ADP/OA improvements over three years after full implementation). So far, the Government has not been willing to make this type of much-needed investment.

PPSS concluded that a flexible, well-coordinated, and integrated government-wide ADP/OA strategy linked to department and agency goals could play a major role in increasing productivity and reducing the costs of Government. However, a void currently exists in the central direction of Federal ADP activities and PPSS, therefore, recommended:

-- The position of Federal Information Resources Manager (FIRM) should be established as a first step in changing the Federal ADP environment. Information Resource Managers should be leaders in developing both short- and long-term government-wide plans for information technology. FIRMs should have the authority to expedite funding for cost-effective systems and should also be able to deny funding for agency systems which are not compatible or cost justified.

-- The Office of Personnel Management and the General Services Administration should seek ways to speed up the hiring cycle for ADP personnel. In addition, to retain qualified personnel, the use of bonuses for rewarding good performance should be increased.

As discussed above, management information is lacking throughout the Federal Government. Since the budget is not a useful management tool and management information is not readily available otherwise on an ongoing basis, great reliance is placed upon special studies. The recommendations of these studies are often not implemented because of the tendency to make no firm decisions in the face of the slightest controversy, resulting in sequential similar studies without resolution. For example, from the first Hoover Commission in 1949 through a subcommittee report of the Senate Armed Services Committee in 1982, there have been more than 20 studies of consolidation, coordination, and regionalization of DOD health care systems. No definitive action to resolve this obvious problem has taken place, but the studies continue.

Similarly, there have been many studies concerning DOD depot consolidation and maintenance consolidation. These studies are quite costly to perform, yet resolution of the problems is continually deferred.

Problems such as resistance to change, the information gap, and antiquated computer systems have to be addressed if the efficiency of Government is to improve. Although there are differences in operating styles and requirements between the public and private sectors of our economy, it is imperative that a business-like approach be taken in the management of the Executive Branch. It is readily apparent that private sector approaches can help improve managing the Government's business.

Aggressively applying the key elements of the business-like approach recommended by PPSS will:

- -- create an organization and process capable of effectively directing and coordinating Executive Branch management activities;
- -- foster the development of management information systems which can provide reliable, timely, and compatible information to senior Government managers;
- -- redirect and expand the budgeting, planning, and evaluation process;
- -- overcome the weaknesses inherent in current systems resulting from a lack of management continuity;
- -- develop mechanisms for effective communication of policies and objectives between the Executive Office of the President and executive departments and agencies; and
- -- reverse the trend of increasing the size of Government.

Your third question:

> "Given the fact that you did not address the problem of incentives, what assurances can you give us that adopting your recommendations will not impact adversely on outputs of the federal government?"

Your question can be answered in two parts. First, incentives and productivity were two related areas to which we devoted considerable effort. Second, we always considered the effects of our recommendations during our analysis.

Government operations are fundamentally of three types: those which have no private sector counterparts (e.g., welfare benefits); those which have private sector aspects but which are fundamentally provided by Government (e.g., national defense, which, nevertheless, has payroll, procurement, pension, and other private sector functions); and business activities which are counterparts of private sector goods and services (e.g., borrowing and lending money, producing power, personnel activities, managing property, etc.).

With regard to those activities for which there are no private sector counterparts, PPSS recommendations were made only to improve efficiency and effectiveness. For example, PPSS did not explore whether the Food Stamp program was necessary nor what the level of benefits should be. PPSS did note that there was over $1 billion of Food Stamp waste, fraud, and abuse and suggested a method to reduce this cost (computer matching of benefits and wage data to control fraud and overpayments). As a further example, PPSS did not consider whether Federal subsidy programs were necessary, but noted that there was insufficient information to determine who was getting how much in benefits. This lack of information does not allow the Government to determine how effective its subsidy programs are. PPSS suggested that this information be accumulated through a form similar to a W-2 income tax form which would show the recipients and the amount of all subsidy benefits from the Government.

Regarding those activities which are solely within the scope of Government activities but which have private sector counterparts, PPSS focused on the business aspect of these activities. PPSS did not analyze whether the MX missile is necessary nor the number and types of aircraft and ships needed to defend our country. We did look at procurement, payroll, and pension activities of the Armed Forces since these are areas where the private sector has considerable expertise and with which it has dealt over many years.

The third area is the business operations of the Government which are directly comparable to private sector activities. Our recommendations in this area were based on private sector standards which have been developed through marketplace competition.

In sum, we analyzed those Federal activities which are comparable to the activities of the private sector, seeking ways to eliminate waste and inefficiency -- getting more "bang for each buck."

Concerning incentives, one of our basic aims was to improve productivity by providing incentives to the Federal work force. This is a fundamental approach in the private sector which is missing in the Federal Government and accounts for many of the improvements that are possible to reduce Federal operating costs.

One of the keys to improving productivity is providing incentives to managers to run efficient operations and motivate employees. Compensation and bonuses provide much of that incentive in the private sector. Yet, top executives in the Government are underpaid in comparison to their private sector counterparts. Executive employees are responsible for agencies with as many as 150,000 employees and for budgets which may be over $100 billion. Yet, Federal executive salaries are approximately one-half to one-third of those in the private sector for senior management positions. A top private sector financial executive in a Fortune 500 company earns approximately $200,000 annually, excluding bonuses which may add 50% or more to his salary. Compare this amount to the maximum Executive Level salary of $80,100, which is 40.1% of $200,000.

In addition, increases in Federal executive salaries have lagged both the private sector and even increases granted Federal retirees. For example, the Comptroller General said in 1981:

> "In our opinion, the executive pay dilemma is one of the most critical but perhaps least understood and appreciated problems facing the Government today. Since March, 1977 (four years), the executive pay ceiling has been increased by only 5.5%. During that same period, retired Federal executives received annuity cost-of-living adjustments totaling 55%; Federal white-collar pay rates have been increased by 38% and private sector executive pay has gone up about 40%."

Further, it is possible to get a promotion and not get an increase in pay. In the General Schedule (for grades 18 and 17, for example), it is possible for a supervisor to make only as much as the person he supervises. Pay compression and pay limits, or "caps," are some of the major reasons executives are leaving Federal service. According to a study by the Comptroller General, experienced Federal executives at the peak of their managerial careers are retiring at an alarmingly high rate. For example, 3,137 career executives retired in 1980, compared with only 508 in 1977. The average Federal retirement age in 1981 was 59, compared to 63/64 in the private sector.

One effort to improve Federal efficiency and effectiveness was the establishment of the Senior Executive Service (SES) in 1978. Those electing to join this elite cadre agreed to accept reassignments to areas where they were needed and give up some of the security offered other civil servants. In return, these executives became eligible for improved pay-setting procedures and a system of awards (including bonuses) which were based on their performance.

The high expectations with which the SES was established have not materialized. One problem is the difficulty of convincing executives to accept positions of greater responsibility that may involve moving to a different part of the country, and incurring expenses that are generally necessary to move, with no increase in salary. Further, many Federal executives are reluctant to accept promotions because the increased responsibilities of the positions are not recognized with higher pay.

The private sector has long recognized that unless you provide incentives to and motivate top management there can be little improvement in productivity and efficiency. To address the problems PPSS found with morale in Federal top management positions, PPSS recommended:

-- increasing Executive Schedule and SES salary rates by 20% to 30%, thus improving the prospects for recruiting, motivating, and retaining the best executives for top Federal positions;

- establishing a 10% to 15% differential between each of the five salary levels of the Executive Schedule; and
- providing an annual or biannual review of Executive Schedule salaries.

In addition, as part of an effort to increase Federal productivity by providing incentives to an elite group of executive personnel, the Director of the Office of Personnel Management (OPM) should begin an in-depth study to determine which SES positions have the scope, accountability, and impact to warrant bonus eligibility and the higher salary schedule.

Reducing the SES to 1,000-3,500 members (from 6,800 currently) would mean a small group of the best and the brightest employees compensated accordingly. The SES program would identify its participants as unique and distinctive and would represent a desirable goal towards which non-participating employees could aspire. The proposed SES contrasts to the current situation in which those nominated and recommended for membership often decline the opportunity.

Further, the SES bonus program, which currently allows 20% of SES members in an agency to receive awards, should be structured so that bonuses are based on productivity and results. This program would be the counterpart of private sector bonus programs that base rewards upon performance -- an incentive to accept promotions and responsibility with commensurate rewards.

In addition to problems with senior agency management, PPSS found serious deficiencies in the planning for and use of the Federal work force. These deficiencies are apparent in overstaffing, lack of employee motivation, and low productivity. The problems are deep-rooted in the lack of a management structure to focus on human resource needs, resulting in:

- inordinate use of overtime;
- creation of thousands of unnecessary, temporary positions;
- assignment of inappropriate spans of control to managers;
- sometimes contracting jobs to the private sector at a higher cost than could be accomplished internally (as opposed to Federal requirements that jobs be contracted out only when cost savings are possible); and

-- excessive layering of management, including excessive use of deputies and assistants, duplicate organizational frameworks, and overgraded positions.

The Government has recognized that it faces a major problem with disincentives to improve. For example, the GAO summarized the problem as follows:

> "... disincentives, which were identified in previous GAO reports, include
>
> o across-the-board budget cuts, [in anticipation of] which ... managers ... keep staff above minimum levels in order to absorb the costs and still perform the work;
>
> o tying grade levels to number of staff supervised; and
>
> o inability of managers to discipline employees who do not perform."

PPSS recommended that the Office of Management and Budget (OMB), within the broader framework of the strongly recommended Office of Federal Management, establish programs to improve productivity throughout the Federal work force. Further, OMB, with assistance from OPM, should utilize existing incentive awards to recognize managers whose contributions to and participation in the programs result in improved productivity. Performance appraisals should include an evaluation of productivity improvement programs by managers and subordinates.

So, we specifically addressed incentives and ways to use incentives to increase outputs.

Regarding assurances that implementing our recommendations "will not impact adversely on outputs of the federal government," our intention in analyzing Government operations was to search for waste and inefficiency. All our recommendations took into consideration what the impact on the affected programs or personnel would be. As stated above, we certainly took into account necessary productivity improvements to achieve some of our recommended savings. Our standards were the practices in the private sector which have to be cost-effective.

Compared to these standards, there is widespread waste, inefficiency, and ineffectiveness in Government. There is much room for improvement (and cost savings) without affecting the delivery of goods and services.

PPSS recommendations to alter or reduce Federal goods or services were made only when:

1. there existed a private sector mechanism to supplant the Federal program;

2. the program no longer met the needs for which it was established;

3. there would be no adverse impact on the aims of the program or the service offered;

4. current practices were wasteful, inefficient, or ineffective; and

5. the same benefits or results could be achieved at lower cost.

PPSS did not recommend an abdication of Government services, and this point should be emphasized. PPSS recommended a more cost-effective way for the Government to deploy its limited resources. And we necessarily took the long-term view in assessing our recommendations and cost savings rather than the short-term perspective common in the Government.

I would emphasize that many of the functions of the Federal Government today are directly comparable to private sector activities. The Federal Government is the largest conglomerate in the world. It is the:

-- largest power producer;

-- largest insurer, lender, and borrower;

-- largest hospital system operator;

-- largest landowner and tenant;

-- largest holder of grazing land and timberland;

-- largest owner of grain; and

-- largest warehouse operator, shipowner, and truck fleet operator.

The Government expanded to its present size because of the assumption that it is the only capable producer of the services it needs to provide to its citizens. For example, once the government decided to provide the military with the benefit of less expensive food, it chose to implement this service by establishing a complete retail grocery system. In the 1860's, this may have been the Government's only option, but today, this duplication of private sector services decreases the efficiency of the retail grocery for the military because management of the commissaries lacks the driving forces of marketplace competition. The Government, by directly producing the commissary service, creates a separate, uncompetitive market with no pressure to control costs.

Other examples of Government businesses which only the Government could once provide include the following:

- -- When multi-purpose dams were first built, the original projects were in rural or less-developed parts of the country that did not have investor-owned utilities to provide electricity.
- -- When NASA developed the Space Shuttle, the magnitude of the technology needed and financial risks involved were such that no private sector firm could build, own, and operate the Space Shuttle.
- -- VA hospitals were originally constructed in response to a shortage of hospitals, the need for which was heightened by a large number of World War I and II veterans.

Today, the situation is vastly different for each of these activities: investor-owned utilities that market electric power are commonplace; private sector firms interested in space technology are anxious to provide capital for and assume much of the risk of space exploration; investor-owned hospital corporations build and manage hospitals for a large variety of clients; and modern, competitive food warehouses and grocery stores exist close to most military bases. In each case, an alternative option for the Federal service currently exists. These alternatives are largely ignored by Government. Instead, Government competes with these businesses without regard either to the cost or the bottom line.

There are no incentives to operate efficiently because Federal managers have the ultimate safety net -- they cannot fail financially. In fact, PPSS has found three conditions which tend to promote operational inefficiency: a) inefficient management tends to be rewarded with higher appropriations and more staff; b) Government operations are insulated from competitive pressures and thus need not address environmental changes; and c) powerful constituencies develop that can, and do, effectively lobby to prevent change. For example:

- -- Budget allocations are made to individual VA hospitals on the basis of the number of patient-days each hospital records during the year, an incentive to increase admissions and delay discharges until there is another patient to fill the vacated bed. Any hospital that fails to meet its target patient-day work load loses a portion of its budget appropriations.
- -- The stated purpose of military commissaries is to procure and resell food at the lowest possible cost. However, the managers' operating funds come from surcharge revenues, determined as a percentage of cost. Thus, a manager can increase his operating funds by paying a higher price for food procurement.

In addition to the lack of incentives, these operations are not efficient because of the lack of management tools. Federal managers lack the authority to implement management decisions; have little authority to hire, fire, or reward good performance; lack management information systems with the capability to provide the right data in a timely manner to facilitate decision-making; and have little freedom to improve operations over time. The bottom line is that the Government has management by regulation or by rote -- management that is totally risk-averse. Managers function on the ability to deliver the same basic service the same way, and create few waves. For example:

- no policy that affects 25 or more VA employees can be implemented without first obtaining Congressional approval;
- military commissaries are unable to install optical scanners at many checkout counters due to the acquisition cost, even though this cost would be repaid many times over in a short period of time through more efficient, less costly operations; and
- the Federal Aviation Administration has no authority to directly implement facility improvements at National and Dulles airports without Congressional approval.

Over time, the Government has become involved in an ever-expanding range of activities. The result is an overly-complex, multi-layered decision-making process with hundreds of managers and a huge administrative staff, including the entire legislative oversight process.

In general, Government-run operations:

- lack the driving forces of marketplace competition that promote operational efficiency in profit-oriented organizations;
- commonly lack the management information systems that provide timely data necessary to arrive at economically effective decisions;
- are constrained by regulated "safeguards" that inhibit a manager's freedom to manage, such as Civil Service regulations governing personnel pay and dismissal;
- are often driven by "political" considerations rather than efficiency considerations; and
- suffer from decision making that is far removed from an activity.

As a result, inefficiency is widespread. A staff study prepared for Congress in 1979 stated: "If the overall Federal productivity could be increased by 10%, personnel costs could be reduced by more than $8 billion per year without a cutback in services."

In sum, drastic changes are needed in the structure of Government, in the incentives to reward efficient performance, and in the information available to manage a $1.4 trillion business.

Again, it was indeed a privilege and pleasure for me and my staff to appear before the Senate Budget Committee. I am encouraged by your willingness to listen to our recommendations and to consider how Congress might be involved in their implementation. We all recognize the time is near for taking those actions necessary to restore fiscal sanity in this country. I appreciate all that you and the Committee are doing to implement PPSS recommendations and to make this a better America for all of us.

Sincerely,

J. Peter Grace

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